

The Political Economy of Foreign Investment:
Constructing Cultural Categories of Capitalist Legitimacy in India

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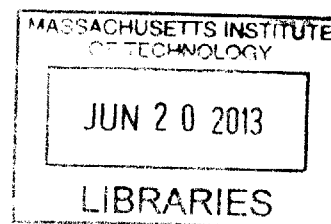
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ABSTRACT

The dissertation addresses a fundamental question in the social sciences: Where do economic interests and policy preferences come from? How do interests and preferences shape political and economic behavior, government policy, firm strategy and ultimately market outcomes? The dissertation addresses this question by analyzing political contestation over foreign direct investment (FDI) rules in India from the late colonial period through the present (1870-2012).

This dissertation employs extensive archival and field research to find that conventional theoretical approaches that naturalize economic interests and deduce economic actors preferences from their socio-economic structural position are inadequate to explain the dynamic shifts in government and firm preferences towards FDI over the course of India's modern economic history. Attention must be paid to the ways in which actors make sense of the complexities of their institutional environment. The dissertation argues that preferences are shaped by cognitive and cultural schemas: rationalized causal ideas imbued with historically salient social meaning. These schemas posit causal and historically meaningful means-ends relationships between the role of domestic and foreign firms and industrial development outcomes. They serve as interpretive frameworks through which business, state and societal actors make sense of the complexities of the economy.

This dissertation assesses the sources of FDI policy preferences by identifying the origins and evolution of rationalized causal ideass that posit the relative costs and benefits of foreign and domestic capital and the cultural meaning systems in which these causal ideas are embedded. However, it argues that there are competing theories and causal ideas at play in the scholarly, policy and managerial discourse that shape actors' beliefs about the economic effects of FDI. This creates significant uncertainty and opens the door for massive contestation between rival actors wielding competing causal ideas. However, there is a second *cultural* element of preferences that receives less analytic attention in the literature. This cultural dimension plays a complementary role by providing the socially meaningful and historically rooted cultural symbols, narratives and tropes that are essential for motivating human action. The stress on agency and the identification of this cultural dimension and the role it plays in preference formation,

political contestation and policy and market outcomes is an important contribution this dissertation seeks to make.

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CHAPTER 1

Introduction, Methodology and Chapter Organization

I. Overview

The dissertation addresses a fundamental question in the social sciences: Where do economic interests and policy preferences come from? How do interests and preferences shape political and economic behavior, government policy, firm strategy and ultimately market outcomes? The dissertation addresses this question by analyzing political contestation over foreign direct investment (FDI) rules in India from the late colonial period through the present (1870-2012).

For policymakers and other societal actors struggling to make sense of the complexities and dynamics of the economy, the politics of foreign direct investment often comes down to a single question: who are the legitimate economic actors through which the development goals of the nation should be realized? That is, whose activities and business practices contribute to the pursuit of industrial development? While these end goals themselves are objects of societal contestation, a central element of the process is determining the means through which policy ends should be achieved and the nature and identity of the actors that should receive policy support. A similar set of questions also holds for domestic firm actors: how should Indian capitalists respond to the threats and opportunities presented by foreign firms? Contrary to many theories that naturalize capitalists' interests, economic actors in fact face complex questions when determining their preferences and formulating their strategies. Might it be more beneficial to have foreign firms participate in the Indian economy so as to gain access to the valuable array of financial, technological and organizational resources they might provide, or is the competitive threat that foreign firms present too great? Ultimately, the question is not only *whether* foreign firms should be allowed entry into the domestic economy, but crucially should foreign firms be governed by the same rules as their domestic counterparts or should *conditions* be placed on foreign firm's participation in the domestic economy so as to maximize the hoped-for benefits and minimize much-feared

costs? This uncertainty about how to regulate foreign firms provides insight to the long-run historical variation in policies that oscillated between support for Indian private capital and foreign firms from the late 19th century through the present.

This dissertation employs extensive archival and field research to find that conventional theoretical approaches that naturalize economic interests and deduce economic actors preferences from their socio-economic structural position are inadequate to explain the dynamic shifts in government and firm preferences towards FDI over the course of India's modern economic history. Attention must be paid to the ways in which actors make sense of the complexities of their institutional environment. The dissertation argues that preferences are shaped by cognitive and cultural schemas: rationalized causal ideas imbued with historically salient social meaning. These schemas posit causal and historically meaningful relationships between the role of domestic and foreign firms and development outcomes. They serve as interpretive frameworks through which business, state and societal actors make sense of the complexities of the economy.

This dissertation assesses the sources of FDI policy preferences by identifying the origins and evolution of rationalized causal ideas that posit the costs and benefits of foreign and domestic capital and the cultural meaning systems in which these ideas are embedded. It analyzes the effect of these ideas and meanings on FDI policy and firm strategy: business and state practices that structure the institutional environment. The analysis begins in the period when the British Colonial Office consolidated control of the Indian colony in the late colonial period through World War I (1870-1914) and continues through the inter-war period (1914-1947), post-independence import substituting industrialization (1947-1979) and the last three decades of economic liberalization (1980-2012). It shows how rationalized ideas emerge from economic theories that posit causal relationships between FDI and development outcomes. However, there are competing theories and causal ideas at play in both the scholarly and policy discourse that shape actors' beliefs about the economic effects of FDI. Two causal ideas are crucial. The first holds that foreign capital not only contributes to industrial growth through investments in areas that advance industrial development, but also as well as indirectly through a variety of spillover effects

that benefit domestic firms and the wider economy (Blomstrom and Kokko, 2003). By contrast, a similarly compelling rationale posits foreign capital as constraining national development by crowding domestic actors out of oligopolistic markets through abuse of monopoly power, preventing them from acquiring new technological and organizational capabilities that would advance the wider development project (Amsden and Hikino, 1994). These represent competing theories that numerous studies in the scholarly and policy literature have been unable to resolve (Aitken and Harrison, 1999). However, while this indeterminacy produces deadlock in scholarly debates, it facilitates political contestation between economic and political actors wielding competing causal ideas as they battle to shape the policy and institutional environment in their favor.

The importance of causal ideas in shaping actors preferences is increasingly recognized in literature from across rational choice, historical institutional and sociological strands of the new institutionalisms (Goldstein and Keohane, 1993; North, 2005; Hall, 1993; Blyth, 1997; Blyth, 2002; Beland and Cox, 2011; Dobbin, 1993). However, there is a second *cultural* element of preferences that receives less analytic attention.¹ This cultural dimension plays a complementary role by providing the socially meaningful and historically rooted cultural symbols, narratives and tropes that are essential for motivating human action.² The identification of this cultural dimension and demonstration of the role it plays in preference formation, political contestation and policy and market outcomes is a major contribution this dissertation seeks to make.

¹ Interestingly this dimension is recently being integrated in the economic sociology and organizational studies literatures, highlighting the analytic utility of bring these literatures into productive conversation. This is elaborated in the recent Special Issue of *The Academy of Management Journal* "Organizations and their Institutional Environment – Bringing Meanings, Value and Culture Back In." 2010, Vol. 53, No.6 of which Suddaby et al (2010) provides the introduction.

² This cognitive element operates primarily in the mind of the individual, as compared with inter-subjectively held social meanings and cultural symbols that are shared across members of a group. Economic sociologists see these as complementary analytic approaches to understanding agency and cognition (DiMaggio, 1997; Dobbin, 2004; Beckert, 1996). A growing literature in comparative and international political economy is engaging with the theoretical architecture of cognitive frameworks (cf. Abdelal et al, 2010) but less so the social and cultural, with some political scientists see this separation as epistemological issue (cf. Rathbun, 2008). This dissertation aims to demonstrate how the two can be productively integrated.

These cultural devices provide salient representations of foreign and domestic firms that have deep historical resonance in Indian society. These representations see foreign firms either as ‘traditional’ economic actors that serve as neo-imperial instruments that prevent India from achieving widely-held industrialization ambitions or instruments of development that introduce modern technologies and managerial practices to the domestic economy. Similarly, Indian firms are categorized as either economic actors orientated towards ‘traditional’ trading and moneylending activities that have long been considered as rapacious, abusive of the poor and constraining industrialization or as modern ‘captains of industry’ that heroically overcome the constraints imposed by the colonial state, import substitution and monopolistic multinational firms to boldly strike out into new areas of industrial production. The legitimacy of these actors in the eyes of state and society in turns determines the shape of the policy and institutional environment, that is, whether their activities should be supported or restricted by state policy. However, these categories of capitalist legitimacy are not given *a priori*, they are products of social and political contestation amongst business and state actors.

The cognitive and cultural categories of capitalist legitimacy are briefly outlined in the table below and expansively elaborated in the analysis over the course of the dissertation. Each of these categories is underpinned by a causal logic that rationalizes the practices of the given business actor, but the causal ideas are imbued with historically salient social meanings that accord or deny legitimacy.

Cognitive and Cultural Categories of Capitalist Legitimacy in India (1870-2012)

Illegitimate Indian economic actors <i>Traditional: ‘bazaar traders and speculators’</i>	Legitimate Indian economic actors <i>Modern: ‘captains of industry’</i>
Illegitimate foreign economic actors <i>Traditional: ‘neo-imperial instruments’</i>	Legitimate foreign economic actors <i>Modern: ‘technology providers’</i>

Finally, the construction of cognitive and cultural categories is a crucial mechanism through which these socio-political processes occur. However, categories like wider institutions don’t just constrain action; they also serve as enabling cultural resources for strategic action, as scholars from across the disciplines have increasingly shown (Swidler,

1986; DiMaggio, 1997; Fligstein 2001; Mullainathan et al, 2008). Much of the political contestation observed in markets reflects economic actors competing to legitimize themselves and their activities, practices and strategies in the eyes of the state and wider public as a means of gaining access to valuable resources. This not only means self-promotion, it is a competitive process that requires efforts to delegitimize others in the policy domain. This is a crucial element of agency and socio-political contestation. This approach allows us to make sense of what would otherwise seem to be idiosyncratic fluctuations in policy, which in the political economy literature is too often unhelpfully ascribed to battles between ‘competing interests’ and ‘the push and pull of politics’.

II. Analytic Framework, Research Design and Methodology

This dissertation provides a theoretical framework that explores the tension between structure and agency, and materialist and constructivist conceptions of the sources economic interests and policy preferences. It highlights the role of agency and contestation in the process of preference formation and the evolution of institutions governing foreign direct investment in India. This social and political theory of preference formation is heavily attentive to historical processes. This section briefly describes the analytic framework, research design and methodology that guided the research.

Analytic Framework: Towards a Firm-centric Political Economy

This research is part of a recent move towards a more firm-centric political economy. This literature reflects a shift from labor-centered ‘corporatist and neo-corporatist’ theorizing about capitalism to increased concern with business politics and the role of firms in the policymaking process. This trend of moving “beyond corporatism” (Thelen, 1994) grew in the field of comparative political economy through the 1990s (Soskice 1990; Swenson 1991; Crouch and Streeck, 1997), and perhaps was capped with Hall and Soskice’s (2001) influential statement about the role of firms in constructing different institutional configurations or ‘varieties of capitalism’ across the industrialized world. Like Hall and Soskice (2001:6), my approach to political economy is actor-centered,

viewing the political economy as a field inhabited by a multiplicity of purposive actors interacting with each other while seeking to understand and further their interests, though doing so in complex environments under conditions of uncertainty.³ Actors may be individuals or groups, including firms, industry associations, labor unions or the state, as long as they have the capacity to act cohesively. This firm-centered political economy sees business as central agents of adjustment to technological change and international competition by national political economies. After all, it is primarily the activities of firms that aggregate into national level economic performance (Hall and Soskice, 2001: 6). This point is especially critical in the context of economic development where firms are the sources of employment and income, and are the principal site of efforts to upgrade technologically and develop the dynamic capabilities that would allow developing countries to respond to the challenges of increased competition under globalization (cf. Teece, Pisano and Schuen, 1997; Cimoli, Dosi and Stiglitz, 2008).⁴

However, despite the programmatic statement of firm-centricity in much of this comparative political economy literature, even Hall and Soskice's (2001) varieties of capitalism framework falls short of being a 'true' firm-level approach. Though it conceptually takes firms as the unit of analysis, it operationalizes firms as "relational networks" (Hancke, 2010:125) and empirically looks at industries and sectors in cross-national comparative perspective. This dissertation goes a step further by identifying and operationalizing key sources of firm level variation underpinning mechanisms of preference formation and then showing how individual firms operate as political actors.⁵ This approach to understanding FDI preferences complements Hart's (2004) call for an individual firm-level approach to interest group politics and business-government

³ This approach is consistent with the analytic concept of the 'strategic action field' in economic and political sociology (c.f. Fligstein, 2001; 2008). This analytic device is put to more explicit use in the empirical chapters of the dissertation.

⁴ This is a point that is left out of consideration by much of the literature on economic nationalism, which focuses primarily on the state level, even though the agents of economic nationalism are invariably domestic firms, and nationalist policies are designed to benefit them relative to their foreign competitors.

⁵ It does so by drawing on both 'classic' international business literature on the politics of FDI (Kindleberger, 1962; Hymer, 1976; Vernon, 1971) as well as the strategic management literature (Porter, 1980; Wernerfelt, 1984; Barney, 1986; Teece, Pisano and Shuen, 1997). This facilitates analysis of the relationship between market power, firm-level resources and business politics, thus providing a sophisticated theoretical framework for understanding how material and constructivist factors interact in shaping preferences in a firm-centric political economy.

relations. Dominant approaches largely homogenize ‘business’ by operationalizing firms through peak or trade associations. This assumes a significant degree of ‘business unity’ and often relies on the ‘structural power’ of business or capital (both Marxist and non-Marxist versions). A firm-level approach problematizes business collective action by seeking to identify divergent and potentially opposing preferences and agency amongst firms. Linking the politics and economics of firms is essential for a complete understanding of dynamics of industrial upgrading, structural transformation and economic growth in the developing world. As such, it is essential for the sub-discipline of the political economy of development to develop a better understanding of firms and their relations with the state.⁶ Finally, business represents a ‘crucial case’ (George and Bennett, 2005) in the study of economic interests and policy preferences. Unlike voters, the behavioral assumptions of firms are seen as particularly restrictive as they are subject to competition and must focus on the bottom line in order to survive: the market forces them to be ‘rational’ (Abdelal et al, 2005). Positing firm preferences as social constructs rather than material realities thus presents a major test of social constructivist theories.

Research Methodology

This dissertation employs historical methods of institutional analysis. It follows the call in comparative politics by political scientists Giovanni Capoccia and Daniel Ziblatt (2010) and Amel Ahmed (2010) to ‘read history forward,’ rather than subjugating history to sweeping trajectories via the elegant reductionism of ‘strong theory’.⁷ Sewell’s (1996) ‘evenemential’ approach also denies the assumption of uniform causal laws operating over time. He argues that events can change balance of causal forces and logic of occurrences that generate historically important consequences. Events do so by “transforming the very cultural categories that shape and constrain human action” (Sewell 1996:16).⁸ However, the approach in this dissertation focuses less on the

⁶ As such, this dissertation follows Hall & Soskice (2001:5) in seeking to “build bridges between business studies and comparative political economy, two disciplines that are often disconnected.” This is done throughout the dissertation, but perhaps most explicitly in the engagement with the strategic management and international business literature in Chapter 5 on the political economy of joint ventures.

⁷ By contrast, these analysts consider ‘reading history backwards’ the approach of looking at outcomes and analyzing them alongside the ‘usual’ correlates Capoccia and Ziblatt and Ahmed (2010).

⁸ Sewell further argues that social causality is temporally heterogeneous not temporally uniform, and thus differs from both experiential and theological approaches to temporality. Social relations characterized by

identification and analysis of major events or critical junctures but rather emphasizes sociopolitical processes of continuous contestation, which punctuated equilibrium models utilizing critical junctures can often hide (cf. Thelen's recent critique). The objective is to highlight the role of agency and contingency, and how these might operate alongside structural imperatives.

'Reading history forward' represents a historical approach to causality, where the focus is on "reconstructing the path that led to institutional choice to determine what actors were actually fighting about" (Ahmed 2010:1061). It involves "sensitivity to actors' subjective understandings of their situation and a recognition that choices made under conditions of uncertainty may not make sense from the perspective of the finish line" (Ibid: 1061). Analytic attention to uncertainty reveals challenges and possibilities. It critiques the assumption embedded in other (primarily rational choice) approaches that actors know the long-term consequences of their decisions, such as the design of institutions, whether electoral systems in the democracy literature or FDI policy regimes in mine). In the case of FDI policy, actors don't know the long-term consequences of a policy approach that restricts or promotes FDI nor a firm strategy that seeks to partner with foreign firms through equity joint ventures or eschew this approach to 'go it alone'. This uncertainty hold even when political and economic actors they know the long term goals they want to achieve, such as economic growth or firm survival. That is, actors are purposive and goal oriented but face pervasive uncertainties.

Analytic approaches based on logic of cross-case statistical correlation that impute preferences from observed outcomes (i.e. reading history backwards) have important limitations in this respect. Instead, we need process-based evidence to reveal causal mechanisms through 'systematic process analysis' (Hall 2003). This involves identifying

both path dependency and contingency, which he argues may be at best local in theological approaches (e.g. Marxist or World Systems with their built in directionality and underlying causal forces), is central in the eventful approach. Radical ruptures and continuities are interlaced; nothing is immune to change. He sees this as approaching historians view of complexity, and being central to the 'historical turn' in the social sciences. Evenemential sociology "... would put the question of how structures are transformed or reconfigured by social action at the center of its inquiries." (1996:24) He concurs with Wallerstein on how we need to " 'unthink' ... our preference for elegant sparse laws over complex, dense interpretive schema" all of which Sewell sees as part of the 'historical turn'.

the microfoundations of decision-making that considers how actors understand their situations (Hall 2005; Katznelson and Weingast, 2005). Ahmed argues that “this methodological move has important theoretical implications, the most significant of which is that it allows us to account for the element of uncertainty in actors’ decision making and the unintended consequences that often result from this.” (Ahmed, 2010: 1066). By contrast, “exclusively reading history backward from outcomes is analytically problematic because such an approach suggests that actors either operated with high levels of knowledge or were able to go back and adjust once they had more information.” (Ahmed, 2010:1066). In the dissertation I highlight the role of uncertainty in shaping discursive battles between actors wielding competing economic theories, nationalist narratives and conceptions of technology, and ultimate in generating policy and market outcomes.

Linking Theory and Method

This dissertation follows Hall’s (2010) call to align ontology and methodology and Parson’s (2007:171) advice on the importance of linking theory to method, where particularistic claims related to certain theoretical positions -- particularly those that are historical and contingent -- require within-case evidence and analysis for support or falsification. This dissertation argues that preferences are formed endogenously through a historically situated process of sociopolitical interaction between domestic and foreign firms and the state. This inductive empirical approach is based on an analysis of history, context and process. It provides a framework for understanding the evolution of preferences over the course of Indian FDI liberalization where, contrary to structural-material theoretical expectations, domestic incumbents are not simply ‘following their interests’ by jealously guarding their home market from rapacious foreign predators. Economic actors’ policy preferences cannot simply be read from their material interests or their structural position. The empirical reality is far more complex.

Contrasting theoretical assumptions have important implications for my choice of methodology (Hall, 2003). The assumptions of deductive reasoning consider economic actors to be rational profit maximizing agents with fixed material interests and

preferences, interacting strategically within fixed institutional constraints. These analytic assumptions make it difficult to build dynamism into models that posit interactions through discrete staged moves. This view can be modeled game theoretically using the economic tools of comparative statics rather than dynamically (c.f. Levi, 2008; also Weingast, 2002:692 and Mahoney and Thelen, 2009). In this view an exogenous shock is required to break the equilibrium and allow for the reformation of interests, preferences and institutional constraints. This results in an ensuing period of (stable) interactions based on newly determined and fixed interests, preferences and institutions.

As a result, these models are often biased towards static equilibrium and path dependence.⁹ By contrast, I propose a view based on malleable preferences induced from analysis of historical processes that allows significant scope for agency and contestation. Powerful actors have the capacity to test institutional boundaries, promoting changes in preferences and institutions in an ongoing process of contestation. The historical and contingent claims put forward in this dissertation require within-case evidence and analysis for falsification or support. As such I utilize process tracing and case-based methodologies, based on archival and interview based data collection methods (cf. Brady and Collier, 2004; George and Bennett, 2005; Mahoney, 2010).¹⁰

By contrast, the dissertation proposes a theoretical conception based on malleable preferences induced from a process-based story, where historical developments matter greatly for outcomes. The rationality assumptions are worth noting explicitly. In this view, actors are not assumed to behave irrationally, but rather notions of rationality are considered to be objects of analysis. This goes beyond considerations of rationality is considered as bounded. Economic actors' interests are complex and malleable rather than straightforward and fixed: actors' identities, interests and preferences are socially constructed through interactions with foreign firms as well as with other domestic firms

⁹ There are important exceptions, as noted in the opening sections of this chapter. For a rational choice approach to institutional change that incorporates many of the sociological concepts used in this dissertation in dynamic game theoretic models see Grief (2006) as well as Bowles' (2009) evolutionary game theoretic approach.

¹⁰ Future work will expand these methods to include causal process observations and within-case tracing of causal mechanisms (Mahoney, 2010).

and the government, and they have the capacity to test the boundaries of institutional constraints (Thelen & Mahoney, 2009; Herigel .This approach does not require an external shock to see a change in actors' interests, preferences or institutional constraints. Change can arise endogenously through social interactions that are deeply inscribed with the use of power, which in the context of this research can be defined as economic actors' ability to shape the preferences of others (c.f. Weingast, 2002; Mahoney and Thelen, 2009).

A conception of ideas and beliefs as essential constitutive elements of policy preferences along with the central role of temporality in the process of preference formation calls for a historical social scientific approach. The empirical strategy to unearth these processes involves tracing processes through which critical events and experiences shifts actors' perceptions of the problems and the available solutions. In this way, policy is only partly driven by material forces and the institutions that arose to cope with them; the ways in which actors make sense of their interests and evaluate the policy options that might allow them to be realized are socially constructed. Thus the empirical strategy to understand how policy preferences are formed involves efforts to reveal the processes and experiences that shift actors' perceptions of problems a firm, government or nation faces and the available solutions. These need not be considered as critical junctures as in a punctuated equilibrium model, but rather as transformative historical processes.

III. Dissertation Structure and Chapter Organization

This final section provides an overview of the chapters in the dissertation.

Chapter Two

Chapter Two is entitled *Theorizing Preference Formation and Categorization*. It provides an extensive elaboration of the theoretical argument introduced in this chapter and made in the dissertation. It does so by locating the argument firmly in the inter-disciplinary literature on new institutionalism.

Chapter Three

Chapter Three is entitled *Institutional Origins: the Rise of Economic Nationalism in India (1870-1905)*. This chapter identifies the institutional origins of Indian economic nationalism in the late 19th century. It explains how Indian nationalists emerged, how these actors' preferences towards foreign capital were shaped. The chapter lays the foundations of the institutional environment in which the politics of industrial policymaking in the post-independence import substituting industrialization and economic liberalization periods took place. Empirically, the chapter proceeds by focusing on the discourse and debates of the period. That is, it shows how these debates shaped the emergence of nationalist preferences, and highlights the implications for economic policy, industrial development and market outcomes in late colonial India.

The chapter begins to operationalize the theoretical framework introduced in the previous chapter in two ways. First, it provides a balanced view of the structural and cultural determinants of institutional origins by showing how institutions were mutually shaped by subjective-cultural and objective-material factors. The approach captures the crucial link between the concrete material processes of British imperial hegemony and the uneven development it created, and the cultural categories of meaning and practice -- including those of imperial domination as well as nationalist resistance -- that co-evolved in the late 19th century global political economy. Rather than assessing these material and cultural factors as separate or competing explanations, as do strands of the political economy literature from rational choice to pragmatic constructivism (cf. Lake and Powell, 1999; Levi, 2009; Herrigel, 2008, 2010), it argues that they are in fact but “two translations of the same sentence” (Bourdieu and Wacquant, 1992) that should be placed in the same analytic framework (cf. Bourdieu, 1977; Giddens, 1984; Sewell, 1992; Fligstein, 2008). Social structure is thus “dually” comprised of structural-material as well as cultural-constructivist resources. Second, the analysis places actors and agency at its core. The chapter shows how Indian nationalist actors creatively combined indigenous and foreign ideational and cultural resources to develop novel cognitive and cultural schemas suited to their own political-economic context and used these to challenge British imperial hegemony. Agents play a central role in this framework through their

capacity to “reinterpret and mobilize an array of resources in terms of cultural schemas” and to “transpose and extend [those] schemas to new contexts” (Sewell, 1992:19; see also Goswami 2002:784). This agency-centric view contrasts with alternative cultural approaches such as the ‘world society’ theories of Meyer et al (1997) that analyze the diffusion of ideas but see the adoption by actors as passive imitation. (Go, 2012). This chapter and the wider dissertation argue that the empirical reality was anything but. The chapter thus begins to demonstrate the utility of the theoretical framework developed in the previous chapter for providing richer explanations of political economic outcomes.

This agency-oriented cultural sociological approach accords well with political economists’ focus on conflict and contestation. The utility of the framework is revealed in this chapter through the contradictions of the British colonial project and the entry points it provided for nationalist agents who had knowledge of imperial cognitive and cultural schemas, that is, the system of intellectual control that the British wielded through science and economics. This knowledge empowered well-positioned actors to devise creative critiques that informed the nationalist position. Thus actors’ location in social structure is important but is not deterministic as structural-functional theories suggest. Instead, structural position in socially defined categories of class, race, nationality, wealth, education, occupation and social prestige provide “knowledge of different schemas and access to different kinds and amounts of resources and hence different possibilities for transformative action” (Sewell, 1992:21).

Chapter Four

Chapter Four is entitled *Constructing Cultural Categories of Capitalist Legitimacy: Indigenous Economic Agents and Modernizing ‘Indian Economic Man’*. The objective of this chapter is to describe the emergence of Indian capitalists as political actors in the industrial policy domain. It builds on the analysis of imperialist-nationalist political discourse in Chapter Three by examining the cultural construction of what British colonial actors referred to as ‘Indian Economic Man’. The chapter has both theoretical and empirical goals. It continues the constructivist critique of political economy by offering an alternative approach to understanding culture in the discipline while

providing insight to the emergence of indigenous capitalists as both economic and political actors in the field of industrial development during the first three decades of the 20th century. This not only buttresses the analysis of the evolution of preferences towards foreign capital in the Indian political economy, the cultural categories that were developed and deployed in this period served as crucial factors in shaping the political discourse that alternatively legitimated and delegitimized the role of both foreign and domestic capital in the post-independence period. The legitimating representations and social meanings that these categories provide are central for understanding Indian preferences towards foreign capital.

The analysis draws on a combination of primary archival and secondary sources to consider the relationship between three sets of actors: colonial authorities, nationalists and indigenous capitalists. It begins by identifying a common problem that nationalist and imperial actors faced: the 'traditional' economic conventions of 'Indian economic man' were considered incommensurate with the institutions of modern capitalism and the development ambitions of Indian economic nationalism. It shows how these competing actors arrived at a similar binary view of Indian business actors despite their otherwise diverging political aims. It does so by presenting the conflicting orientations and objectives of colonial and nationalist actors before identifying how the dichotomy between 'traditional' and 'modern' that shaped the legitimacy of foreign and domestic capital nevertheless served both of their purposes.

The chapter also assesses the response of indigenous capitalists and highlights their attempts to navigate this politically contentious and dynamic institutional environment. While colonial and nationalist actors provided conflicting representations of emerging Indian capitalists, it shows that they were neither political tools nor cultural dopes; they displayed significant agency in resisting the attempts of modernizing imperial and nationalist actors to categorize them as backward. They challenged this cultural categorization by organizing and projecting an image of themselves as 'modern' economic actors, thereby asserting a role as expert managers of the Indian economy and a viable alternative to foreign capital in the nationalist pursuit of industrial development.

Chapter Five

Chapter Five is entitled *Contesting Modernity Amidst Global Uncertainty: Competing Visions of India's Future and the Meaning of Development*. The chapter builds on the analysis in Chapter Three, which described the emergence of a relatively cohesive Indian economic nationalism organized around imperial resistance and economic drain theory in the late 19th century. This first wave of nationalist frustrations with colonial rule exploded in the *swadeshi* movement and boycotts of British manufactured goods around the turn of the century. Chapter Four revealed how these nationalist agitations led to the beginning of formal interactions between the Indian National Congress and colonial authorities as the latter sought to address nationalist grievances, particularly around indigenous industrialization. While political contestation in the period leading up to the First World War was firmly the nationalist-imperialist mold, this chapter analyzes the fractures that emerged amongst nationalist elites during the inter-war period in what had been a relatively consensual understanding of Indian economic nationalism. This contestation over the content of Indian economic nationalism was informed by competing cognitive and cultural schemas, and is crucial for understanding the politics and foreign investment policy direction of the soon-to-be independent India.

The chapter thus identifies critical historical antecedents of post-independence policymaking in late colonial development debates as two new sets of nationalist schemas emerged to challenge the imperial development orthodoxy. These schemas were based on Mohandas Gandhi's moral philosophy and Jawaharlal Nehru's scientific socialism, constituted the principal tools with which twentieth century Indian nationalists contested colonial power as they approached independence in 1947. This contestation was a deeply social process, with competing schemas designed to fit with particular constructions of historical memory (cf. Abdelal, 2001). These schemas provided particular meanings to the process of industrialization and development first to challenge imperial system of thought based on classical political economy, and then increasingly turning to internal contestation as the Indian National Congress moved closer to gaining state control. Finally, both schemas assumed radically different roles for foreign and domestic capital.

Gandhian development was based on small-scale village-based industry employing ‘traditional’ production technologies, but nevertheless retained a legitimating role for large Indian capitalists as ‘trustees of the nation’s wealth’. Nehru’s scientific socialism, by contrast, relied on the state as the legitimate economic actor that would control the economy from the ‘commanding heights’ as a means of driving modern industrial growth through large-scale capital and technology-intensive industry. Private Indian capital was relegated to a subordinate role in consumer-oriented industries and would be tightly controlled by an elaborate industry licensing system. Crucially, the rationalized causal logic and social meaning of these conflicting schemas prescribed radically different roles for foreign investment. Both Nehru and Gandhi saw foreign capital as the tool of British imperialism. However, foreign capital and technology were a necessary evil under Nehruvianism in order to acquire the technologies need to build ‘modern’ industry; the problems of legitimacy they presented would be addressed by managing private capital through statist control mechanisms. By contrast, foreign investment had no role to play in Gandhianism given its reliance small-scale industry using indigenous technologies. This shaped competing preferences towards foreign investments by adherents of Gandhianism and Nehruvianism that persisted in the post-independence period.

Chapter Six

Chapter Six is entitled *Constructing Economic Interests and Policy Preferences in Post-War India and Brazil*. The chapter places the wider argument of the dissertation in cross-national comparative perspective by examining post World War II industrial development efforts in India and Brazil. It explores the tension between rational-materialist and cultural-constructivist theories of political economy by comparing foreign direct investment policy preferences in India and Brazil. It shows how, despite occupying similar structural positions in the global political economy, having similar development goals of transforming their countries from primary commodity producers into modern industrial powers, and facing similar financial, technological and other material constraints in promoting manufacturing industry, India and Brazil adopted radically different approaches to regulating foreign capital. These differences were not limited to government policy; Indian and Brazilian business actors also pursued different strategies

in engaging with foreign firms despite their similar size and organizational capabilities and facing the same global economic environment characterized by the aggressive post-war expansion of US multinational firms.

The chapter then identifies the source of the radically different preferences towards foreign direct investment. It describes how these differences emerged from historically rooted variation in beliefs about the role of foreign versus domestic firms in the industrial development and wider modernization project. These beliefs informed the development of distinct cognitive schemas that provided actors with rationalized causal ideas linking FDI with industrial development outcomes. These rationalized causal ideas were underpinned by historically experiences that ascribed salient social meanings to the role of foreign capital in the pursuit of industrial modernity. Brazilian business and government actors welcomed multinational corporations as collaborative partners who could play a central role in capital accumulation and industrialization, while their Indian counterparts also recognized foreign firms were crucial sources of technology but viewed them as neo-imperialist instruments, and hence were much more wary of engaging with multinationals. Foreign capital was thus placed in contrasting categories of legitimacy in both countries. The chapter provides further empirical support for the main argument of the dissertation that economic actors' policy preferences cannot be deduced based on assumptions of rational behavior and economic actor's position in the socioeconomic structure. Preferences are shaped by cognitive and cultural schemas, rationalized causal ideas imbued with historically salient social and political meaning. Economic interests and policy preferences thus are not automatically given; preferences are formed through historically embedded sociopolitical processes that shape the experiences and beliefs of economic and political actors.

Chapter Seven

Chapter Seven is entitled *Agency and Creativity in Schema Construction: Populist Socialism and Aspirational Consumerism*. Having shown how preferences emerge and differ across similarly situation actors, Chapters Seven and Eight outline the socio-political mechanisms through which foreign direct investment (FDI) policy preferences

change over time. Chapter Seven does so by analyzing socio-political contestation at the state level. Chapter Eight continues by shifting the level of analysis to consider how firms and other societal actors engage in processes of contestation over FDI rules in the domain of the state.

This dissertation has shown that preferences are neither fixed nor exogenously determined but are shaped by socially constructed cognitive and cultural schemas. However, this raises the following question: if actors see the world through the interpretive frames of schemas -- widely held belief systems that posit rationalized causal ideas imbued with deep social and historical meaning -- how do schemas and hence preferences change? If preferences are not unambiguously given, but are developed through a social process in which actors utilize cognitive and cultural schemas to interpret the world and their situation within it, what are the mechanisms through which this process might unfold? Do preferences change through processes of social learning where actors seek new economic ideas and information to update their preference orderings via 'rational' processes of Bayesian learning (Bates et al, 1998; Weingast, 2005)? Or do preferences change through more 'constructivist' processes where actors adopt new ideas that diffuse through epistemic networks and alter their belief systems (Dobbin et al, 2007)? That is, does the process occur solely in the minds of individuals or is there a social dimension where collective social meanings and widely held understanding come in to play. Finally, is there a role for discourse, debate and political contestation in the process of adopting new ideas (Hall, 1993; Schmidt, 2008)? And are these alternative 'sociological' and 'scientific' mechanisms of preference change compatible, as the three-stage model in Hall's (1993) seminal article argues, or are they inherently incommensurable, as Blyth's (2011) critique suggests?

This dissertation argues that while both rational Bayesian and social learning perspectives rightly stresses the role of causal ideas, a crucial missing element is the social meaning with which causal ideas must be imbued, the salient historical narratives in which they must be embedded and the cultural symbols that must be utilized in conveying causal ideas in order for them to be fully internalized. That is, ideas that are weakly embedded

or do not fit the historical narratives and collective social memory of a given society have little chance of resonating with societal actors much less shaping preferences and behavioral outcomes. Imbuing ideas with social meaning is thus crucial, but it does not happen naturally; it requires significant agency and creativity on the part of strategic political and economic actors. These actors, often prominent figures in business or the state with access to valuable social, political and economic resources, utilize widely understood cultural symbols to devise and deploy new schemas that posit different roles for foreign and domestic capital in the nationalist development project (Douglas, 1986; Swidler, 1986; Sewell, 1992). This dissertation thus contributes to the literature on preferences, social learning and the politics of ideas by highlighting the socio-historical and cultural embeddedness of ideas along with the role of agency in shaping political and economic outcomes, which are often downplayed or ignored in rational choice, historical institutional and even some sociological institutional formulations of the new institutional literature.¹¹

This chapter will show how preferences change as established cognitive and cultural schemas become delegitimized by economic and political developments that violate the promise and expectations of the dominant view. These developments provide an opportunity for strategic actors to construct novel schemas by imbuing new causal ideas with salient social meaning. India's rich and dense social fabric, replete with generations-old socio-economic, ethnic and religious tensions that are continually reproduced through cultural tropes embedded in the social memory provides the perfect empirical setting to elaborate this theoretical argument of the source of preferences in cognitive and cultural schemas. The chapter builds on earlier arguments by highlighting the agency and creativity demonstrated by Indira Gandhi as she developed and deployed new schemas: first populist socialism when she first became Prime Minister during the tumult of the late 1960s, and then aspirational consumerism upon her return to power in 1980. While the analysis of changing schemas and FDI preferences in this chapter remains largely at the policy level, the next chapter highlights the political contestation that took place through discourse and debate between state and firm actors and the implications for preference

¹¹ This is a central argument of the 'twin-tensions' framing in the introductory chapter.

change. This discursive contestation occurred when the aspirational consumerist schema that heralded the beginning of economic liberalization in the 1980s fractured in the 1990s as an increasing number of state and business actors attempted to recast it ways that would serve their perceived interests. Throughout both chapters the analysis is oriented around FDI policy, beginning with state actors in this chapter before shifting to the interaction between state and firm actors in Chapter Eight. The dissertation thus concludes by highlighting the interaction between FDI policy and firm strategy, particularly around Indian firms' joint venture strategies with multinational corporations.

Chapter Eight

Chapter Eight is the final empirical chapter. It is entitled *Constructing Cultural Categories of Capitalist Legitimacy in the Liberalization Era (1991-2012)*. The chapter begins by outlining the theoretical framework that reveals the role of culture and cognition in category construction and deployment. It briefly recounts the long-run empirical backdrop to the liberalization period that illustrates the emergence of the cultural categories of 'traditional' and 'modern' in the late 19th century and their and persistence through the post-independence period. The narrative then turns to the acceleration of the economic liberalization from 1991 onwards. It first presents the rationalized causal ideas that underpinned both state and firm preferences towards foreign direct investment in the initial years of the reforms, before analyzing the backlash against FDI liberalization that emerged amongst leading Indian economic actors. It shows how actors imbue rationalized causal ideas with salient social meaning as they develop and deploy competing representations of domestic and foreign business practices in the domain of policy contestation. This emerging conflict amongst business actors was not restricted to the elite realm of business politics; it was deeply embedded in the wider political dynamics of the mid-late 1990s. The chapter charts the rise of the Bharatiya Janata Party (BJP), a new political party that challenged and ultimately displaced the dominant Congress Party. This political conflict was conducted in part by political actors deploying cultural resources as weapons in the raging FDI debates. The chapter then turns to the imposition of a major policy rule known as Press Note 18 that dramatically alters the institutional environment that shaped market interactions between domestic and

foreign firms in joint venture relationships. It analyzes the causal ideas and social meanings that underpin the creation of Press Note 18. It does so through a brief comparative case study of two Honda joint ventures, and then considers the reaction to the policy change by foreign and domestic firms. The chapter then describes how competing actors developed and deployed new socially meaningful ideas in the 2000s in response to state intervention and new market developments.

Conclusion

Chapter Nine provides the conclusion to the dissertation. It summarizes the overall argument, provides a discussion of the theoretical contribution the dissertation makes to the new institutional literature in political economy and sociology. It does so by reiterating the role of social meaning and culture as an crucial component of actors preferences that is often underplayed in the political science literature, as well as the importance of agency and contestation in the preference formation process, an element that should be accorded greater analytic attention in sociology.

CHAPTER 2

Theorizing Preference Formation and Categorization

I. Introduction

Interests, preferences and institutions are the central analytic concepts used to explain human behavior and economic outcomes in comparative and international political economy. This is especially so in the ‘new’ institutionalisms, whether the rational choice, historical institutional or sociological variants that simultaneously re-emerged as distinct paradigms in the 1980s and 1990s (Hall and Taylor, 1996). This renewed interest in the study of institutions has produced an increasingly fruitful inter-disciplinary exchange in the social sciences, particularly as scholars realized that the debate about institutions over the past three decades was due less to paradigmatic wars than to each approach responding to the behaviorism of the 1960s (Hall and Taylor, 1996; Immergut, 1998).¹ This recognition revealed commonalities among the competing paradigmatic approaches to institutions that in turn has led to growing theoretical dialogue (Immergut, 1998; Thelen, 1999; Campbell and Pederson, 2001; North, 2005; Katznelson and Weingast, 2005; Scott, 2008; Hall, 2010) and is becoming increasingly apparent in empirical work (Mahoney, 2000; Greif, 2006; Acemoglu and Robinson, 2006; Mahoney and Thelen, 2010).²

The literature sees preferences, interests and institutions playing an important role in shaping human action, but competing paradigms disagree on the constitution of actors, interests and institutions, and the nature and direction of the causal relationship between

¹ The behaviorist approach sought to apply ‘scientific’ methods to human behavior through a focus on the individual at the expense of institutions, as well as an emphasis on deductive rather than interpretive approaches.

² In addition to theoretical arbitrage, this has also been reflected in methodological innovation, where the analytic methods that have traditionally been associated with particular approaches – statistical analysis and game theory in rational choice, archival research and macro-historical narrative in historical institutionalism and ethnographic and other interpretive methods in sociological institutionalism are now being employed to a greater degree across approaches, as evinced in the trend towards multi-method research.

them. This reveals the twin tensions at the ‘theoretical core’ of the new institutionalisms. There is a tension between materialist and constructivist sources of preferences and interests, and a tension between structure and agency. The location of different institutional approaches on each of these intersecting dimensions provides distinct theoretical predictions of the sources of interests and preferences that shape economic agents’ political behavior and produces policy and economic outcomes.

This dissertation explores these twin tensions by focusing on the evolution of the formal and informal institutions governing foreign direct investment (FDI) policy and the participation of foreign firms in the Indian economy from the late colonial period through the present (1870-2012).³ Institutions are conceptualized as more than just ‘rules of the game’ (North, 1991): they are more comprehensively defined as “sets of regularized practices with a rule-like quality, [that] structure the behavior of political and economic actors” Hall (2010:1). Institutions play an important role in shaping actors preferences by ascribing legitimate roles to foreign and domestic firms in the Indian economy, but institutions themselves are created through dynamic and contested sociopolitical processes as actors struggle to shape the rules, beliefs and norms that govern economic life. Actors and institutions are thus mutually constituted.

The dissertation addresses the following question: *where do economic interests and policy preferences come from?* The dissertation challenges dominant theories by analyzing how the foreign direct investment policy preferences of domestic firms and the government evolved over time, from resisting openness to FDI that would maintain a protected market to promoting liberalization of FDI policy and greater entry of multinational firms. It shows that political economy theories predicting economic and political actors’ policy preferences are naturally endowed, are determined by socio-economic structural position or are produced by rational calculation are misleading.

³ Formal institutions include policies, laws and other government regulations that specify the conditions under which foreign-owned firms can participate in the Indian economy. Informal institutions refer to the social norms that shape the ways in which foreign firms have been considered by Indian business, government and the wider public. Most importantly, “institutions above all else [are conceived of] as *distributional instruments* laden with power implications” (Mahoney and Thelen, 2010:9). These institutions shape the pattern of distribution between foreign and domestic firms.

Economic agents' policy preferences towards FDI are neither fixed nor structurally determined; they are malleable and are constructed through processes of social construction and political contestation. These sociopolitical processes emerge as economic and political actors seek to establish themselves or their favored group as the legitimate actors through whom the development ambitions of the nation should be pursued. [Institutions play a crucial role] by providing the interpretative frames that allow actors to distinguish between competing cognitive and cultural categories of 'legitimate' and 'illegitimate' foreign and domestic economic actors. This contestation is always fierce, particularly under the pervasive conditions of environmental complexity and heightened uncertainty that characterize periods of crisis, institutional change and economic reform. These moments of indeterminacy highlight ongoing agency as socially embedded actors struggle to shape the institutional domain to their advantage by legitimizing themselves as the agents through which national goals articulated by the state can be realized while simultaneously delegitimizing their competitors in the institutional domain. Analytic attention to long run sociopolitical dynamics reveals continuous processes of socio-political contestation that are sometimes lost in punctuated equilibrium models predicated on long periods of stasis and short sharp periods of change. The dissertation argues that order to understand the process of preference formation we must understand the ways in which socially embedded agents continuously interact with their institutional environment. The policy arena and the market are zones of political contestation where economic and political agents seek to establish legitimacy and entrench dominant positions.

Foreign direct investment policy in India provides an excellent domain within which to analyze this process. This dissertation shows how actors seek to present themselves as legitimate instruments through which the development ambitions of the state can be realized. It shows how actors seek to legitimate themselves and delegitimize others by developing and deploying cognitive and cultural categories of 'traditional' and 'modern' business practices. These categories then serve as devices through which the legitimate role of foreign and domestic firms in the project of national development is understood. Institutions are the key devices through which actors are legitimized, but institutions

themselves are created through active socio-political processes of human agency. The dissertation thus contributes to a growing literature on institutionalism in the field of comparative and international political economy. It promotes new understandings of the mutual constitution of preferences, actors and institutions that can provide richer explanations of political behavior and economic outcomes.

The dissertation draws insights from comparative political economy and economic sociology to develop a rich inter-disciplinary theory of preference formation. This theory then provides the analytic framework for the empirical analysis in the wider dissertation. This rest of this chapter is organized as follows. The concepts of economic interests and policy preferences are frequently invoked in the field of political economy and are central to social scientific understandings of behavior, but they are often conflated and poorly defined. Section II specifies a definition of economic interests and policy preferences. It argues that preferences are shaped by cognitive and cultural schemas -- rationalized causal ideas imbued with historically salient social meaning -- then describes how this definition of preferences is operationalized in the analysis of FDI policy in India. Having laid this foundation, section III presents a critique of dominant approaches of deducing policy preferences from economic actors' structural position. Section IV then moves beyond static sources of preferences to assess shortcomings in models of dynamic of preference change via Bayesian learning. It provides an alternative view of preference formation as a social and political process that takes place through the development and deployment of cognitive and cultural schemas. Section V then briefly outlines an analytic role for power in the process of preference formation. Section VI and VII operationalize the argument in two important ways. First, Section VI identifies the rationalized causal ideas and social meaning embedded in cultural schemas as mutually reinforcing but analytically separable components that constitute policy preferences, and shows how economic agents deploy these as resources in trying to shape the institutional domain of FDI policy. Socially meaningful causal ideas are embedded in salient narratives and cultural symbols that are used to convey conceptions of technical artifacts such as economic theory and industrial technology. Section VII then directs attention from the theoretical foundations of preference formation to the role of cultural categories of

capitalist legitimacy. This section theorizes the role of categories as cognitive and cultural devices in the preference formation process. It shows how categories are deployed to legitimize and delegitimize foreign and domestic economic actors in the course of policy contestation and institutional reform. The chapter concludes with a very brief summary in Section VIII.

II. Theorizing Preferences and Interests in Political Economy

Political science still asks all too rarely why an actor believed the means he adopted would have the effects he anticipated and where those beliefs originated. When we say that an actor, whether an individual or a government, took a particular set of actions to further his interests, even if we know what his interests were, we need to know why he had any reason to believe such actions would serve those interests well.⁴

Economic interests and policy preferences are the fundamental conceptual building blocks in political economic analysis of the policymaking process. Preferences are central to accounts of purposive action but leading scholars nevertheless lament that “preferences remain a relatively primitive category of analysis” (Katznelson and Weingast, 2005). The challenges appear to be fundamental, as Frieden (1999:39) notes that “scholarly attention to the sources of national or sub-national interests – or, as we call them, preferences – is wrought with confusion.”⁵ Despite their centrality in the social and behavioral sciences preferences and interests are poorly defined. As such, it is important that clear definitions of interests and preferences as distinct though related concepts are established at the outset of this analysis.⁶

⁴ Hall (2005:135).

⁵ It is worth noting that in making this important point even Frieden himself appears to conflate the terms, reflecting the challenge in distinguishing these key analytic concepts. Frieden’s (1999) broader argument though is that there is a strong need for more theoretical work on preferences, and he is particularly keen that scholars separate interests and preferences from actors’ strategic setting, which he defines as including uncertainty and institutions, amongst other environmental factors. These play an important role in my own formulation. In later work, Frieden and Lake (2005:149) provide a more clear distinction in where interests are defined as how individuals or groups are affected by particular policies, with preferences relating to different policy options. This is closer to the definition that I provide below.

⁶ While this analysis focuses on narrowly economic policy preferences rather than fundamental interests, it is important to clearly establish the relationship between them.

In his rich intellectual history *The Passions and the Interests*, Albert Hirschman (1977) defines interests as ‘valued ends.’ Interests reflect the ultimate outcomes or states of being that economic actors want to achieve. Interests and preferences are intimately related: preferences refer to economic actors’ conceptions of available alternatives that they believe will allow them to achieve their desired ends.⁷ Actors’ rationalized beliefs about causal means-ends relationships are thus central to the substantive content of policy preferences. Further, the process through which they acquire those beliefs underpins the always-contested socio-political dynamics of preference formation (Hall, 2005:155).

The substantive content of these rationalized causal ideas are most often provided by economic theories that posit causal relationships between FDI and development outcomes. However, as this chapter and the wider dissertation show, there are competing theories and ideas at play in the scholarly and policy literature on the developmental role of FDI. This creates space for political contestation between economic and political actors wielding competing causal ideas as they battle to shape the policy and institutional environment in their favor (Beland and Cox, 2011). The nature of these ideas and contestation between actors is central to preference formation and thus is elaborated in the ensuing sections of this paper.

Rationalized causal ideas are a crucial *cognitive* element of preferences that allows actors to link means with ends. As the next two sections show, the importance of causal ideas and ideas in shaping actors preferences is increasingly well-recognized in literature from across rational choice, historical institutional and sociological strands of the new institutionalisms, though they are operationalized through radically different

⁷ The corollary in the microfoundations of neoclassical economic theory would be utility, which is a measure of satisfaction and is synonymous with interests. Preferences would reflect the bundle of goods that an actor believes would maximize her utility i.e. allow her to achieve her interests. See also North’s (2005:23) discussion of the role of beliefs in determining choices, which in turn shape social structure. Belief formation – and the cognitive processes of learning that underpin them – is central in his theory of institutional change. Elster (2005:248) defines preferences as “a preference ordering over policy options”. Further, “An outcome-oriented motivation needs to be supplemented with causal beliefs to yield a policy preference. More simply: to achieve an end you need to form a belief about means to that end. This is true of the pursuit of common interest as well as of private interest.”

mechanisms.⁸ However, there is a second *cultural* dimension of preferences that is largely ignored across the new institutionalisms. This cultural dimension complements the individual level rationalized cognitive element by providing a role for historically rooted and inter-subjectively understood social meanings, symbols and tropes in shaping actors preferences.⁹

The relationship between the cognitive and cultural dimension of preferences requires further elaboration. The growing consensus in the new institutionalisms on the role of causal ideas, such as those provided by economic theory, is consistent with my argument that preferences are comprised in part of rationalized causal ideas. However, a crucial missing element in new institutional conceptions of preferences is the social meaning with which causal ideas must be imbued, the salient historical narratives in which they must be embedded and the cultural symbols that must be utilized by actors in conveying causal ideas to others in order for them to be fully internalized. That is, ideas that are weakly embedded or do not fit the historical narratives and collective social memory of a given society have little chance of resonating with societal actors much less shaping preferences and behavioral outcomes. Imbuing ideas with social meaning is thus crucial, but it does not happen naturally; it requires significant agency and creativity on the part of strategic political and economic actors. These actors, often prominent figures in business or government with access to valuable social, political and economic resources, utilize widely understood cultural symbols and historical narratives to devise and deploy new schemas and categories that posit legitimate roles for foreign and domestic capital in the national development project (Douglas, 1986; Swidler, 1986; Sewell, 1992). This dissertation thus contributes to the new institutional literature on preferences, social learning and the politics of ideas by highlighting the socio-historical and cultural

⁸ Goldstein and Keohane (1993) refer to “causal ideas” as the “means-ends schemas used to assess whether a specific set of actions will produce the intended results...Such causal ideas are constitutive elements of fundamental preferences, defining what game theorists sometimes term the pay-off matrix that precedes judgments made about the likely behavior of others” (also cited in Hall 2005:135). A potential issue may lie in the extent to which uncertainty is ignored in this formulation. The effects of uncertainty play a major role in the discussion in this chapter and the rest of the dissertation.

⁹ This cognitive element operates primarily in the mind of the individual, as compared with inter-subjectively held social meanings and cultural symbols that are shared across members of a group (cf. DiMaggio, 1997; Rathbun, 2008).

embeddedness of causal ideas along with the role of agency in shaping political and economic outcomes. This crucial social and historical dimension of preferences is often downplayed or completely ignored in rational choice (Goldstein and Keohane, 1993), historical institutional (Hall, 1993; Blyth, 1997; Blyth, 2002; Schmidt, 2008; Beland and Cox, 2011) and even some sociological institutional formulations of the new institutional literature that otherwise emphasize the role of causal ideas.

We can now take these definitions and apply them to the economic policy realm, where interests might be assumed to be profits or simply survival for firms and economic growth and ‘development’ for policymakers.¹⁰ Economic policies are courses of action undertaken by the government in order to achieve particular desired economic outcomes.¹¹ These policies always have crucial distributional implications. FDI policies, for example, determine the levels of equity ownership and managerial control that foreign economic actors can hold in firms located in the Indian economy, and the rules and conditions under which domestic and foreign firms both collaborate and compete in the market. Economic policy preferences thus reflect the socially meaningful rationalized causal ideas that actors believe will allow them to achieve their interests. This definition

¹⁰ These assumptions are made for the sake of simplicity in my theoretical model. For example, firms’ interests may be maximizing market share, which, as models of monopolistic and oligopolistic behavior from the field of Industrial Organization suggest, may have little to do with maximizing profits, at least in the short run; alternatively, we know from economic sociology that firm goals may be oriented around non-material goals such as legitimacy, prestige or other social rewards. My assumption is relatively simple: they want to survive and make money. Similarly, politicians’ interests may lie in re-election, or simply gaining personal wealth, goals which also may or may not be related to wider national goals such as economic growth or ‘development’, that latter which itself has multiple meanings. The multiple meanings of ‘development’ for state actors are the focus of analysis in the upcoming chapters. In the case of firms I opt to focus on profits as straightforward and reasonably defensible assumption that is consistent with the empirical observations of Indian and multinational firm behavior, but the theory of preference formation proposed in this chapter and illustrated throughout the dissertation is robust and amenable to relaxing these assumptions. The analysis in the dissertation shows that economic growth and structural transformation has always been central to the legitimacy of colonial and post-colonial governments in India. However, the means of achieving these end states, and the role of FDI in accomplishing it, is the source of massive debate and contestation.

¹¹ These can include monetary policies to achieve a given level of savings, investment and perhaps ultimately inflation (amongst other potential targets), tax policies to achieve a given level of revenue collection, or foreign direct investment to achieve economic growth or a particular balance of domestic and foreign ownership of firms in the national economy. Within a given economic policy domain – monetary, fiscal, trade or foreign direct investment – there are a variety of policy alternatives drawn from a feasible set that could be applied (c.f. Elster, 1985). Monetary policy can be conducted through different combinations of interest rates and levels of money supply, or different levels of ownership that foreign economic actors are allowed to hold in firms that are located in the domestic economy in the case of foreign direct investment.

emphasizes the crucial *interpretive* role of preferences that is, actors' *interpretations* of available policy options. It captures actors' conceptions of the extent to which alternative policies options will allow them to achieve their interests, as well as the perceived distributional effects i.e. how economic actors believe policies will affect them relative to others within their institutional field.

Preference formation is thus the process by which actors determine the most appropriate means through which to achieve their desired ends. Beliefs and strategic considerations - two key analytic concepts from alternative institutional paradigms - are thus always central elements of policy preferences, and play an important role in the theory of preference formation developed in this dissertation. This is especially so for firms in oligopolistic industries such as automobiles and pharmaceuticals, given that their performance is measured in relation to their competitors as they fight for market share, profits and growth. Thus actors have preferences for different economic policies because they have a set of beliefs about how each of these policies will allow them to achieve their desired ends.

Given these definitions we can illustrate the relationship between interests, preferences and outcomes that guides the analysis in this dissertation. We begin by assuming that economic agents – policymakers or firm managers – have a set of economic interests, which may be economic growth in the case of government or profits that will ensure firm survival in the case of managers. Policy preferences then reflect the policy means (e.g. the regulations) through which policymakers or firms believe they can achieve their desired ends: that is, the types of FDI policies that may be good for economic growth or domestic firm survival, respectively and crucially, the social meaning(s) they attach. Actors' preferences then indicate the type of political behavior we might expect, such as lobbying activities as economic actors seek to convince others of the efficacy of their preferred policy approach and thus shape the policy and institutional environment.

Preference formation captures the process through which actors determine which FDI policies might best achieve their perceived economic interests. Economic agents may

have material goals, but their economic policy preferences, which is to say the courses of government action they wish to see employed, cannot be deduced unproblematically from their fundamental interests or their structural position. Preferences are shaped by cognitive and cultural schemas – rationalized causal ideas imbued with salient social meaning – that serve as interpretative frames through which actors make sense of their environment, evaluate options and motivate action.

The construction of cognitive and cultural categories is a crucial mechanism through which these socio-political processes occur. The classic works of Emile Durkheim and Max Weber provided a social-psychological mechanism of cognition through which actors make sense of the world. Durkheim (1915) argued that the human mind creates categories in order to map the complexity of their environment. These frameworks are not only situated in the individual consciousness, they are inter-subjectively shared across individuals and groups through institutions and social interactions. The creation of cognitive categories is thus itself a social activity (Dobbin, 2004). Durkheim (1915) provided the social underpinnings of cognition by identifying the human inclination to collectively make sense of world by classifying things and attaching meaning to them (Dobbin, 2009). This approach has been central to research programs in behavioral economics, cognitive psychology and other social scientific disciplines (DiMaggio, 1997; Mullainathan et al, 2008; Thornton and Ocasio, 2008). Behavioral economists have adopted ideas of ‘coarse sorting’ to show how actors group situations into categories to which they apply standard inferential models. Economic sociologists have illustrated the role of categories in directing financial flows and policy rents to market actors (Zuckerman, 1999). However, categories like wider institutions don’t just constrain action; they also serve as enabling cultural resources for strategic action, as scholars from across the disciplines have increasingly shown (Swidler, 1986; DiMaggio, 1997; Fligstein 2001; Mullainathan et al, 2008). This link between cognition and meaning-making is seen through classifications of legitimate and illegitimate capitalists that came to the fore at crucial moments of Indian economic history such as when the state attempts to impose new institutions. Armed with this understanding of the relationship between economic interests, policy preferences and processes of categorization, the next section undertakes

a critical consideration of how FDI policy preferences have been theorized in the literature on the politics of FDI policy.

III. Structural Weaknesses: Deducing Policy Preferences from Structural Position

The conventional approach to determining policy preferences in comparative and international political economy – whether its rational choice or historical institutional variants – is to derive economic actors' policy preferences from their structural position.¹² The widely held proposition that domestic incumbent firm preferences will lead them to lobby against FDI liberalization draws support from neoclassical economics. Neoclassical theory predicts “supernormal” monopoly profits come from imperfectly competitive industries (Tirole, 1988). This provides incumbent producers in profitable concentrated industries with an incentive to prevent entry of competitors to protect their monopoly profits (Stigler, 1971). Private interests are thus expected to organize and lobby for the private non-welfare maximizing benefits of protection (Olson, 1965; Stigler, 1971, Peltzman, 1976; Grossman and Helpman, 1994).

In this view, multinational corporations (MNCs) pose a serious competitive threat to domestic incumbents, particularly those located in developing countries. MNCs exist as a strategy of transnational capital seeking higher returns on firm-specific assets. While international portfolio capital captures returns via factor price equalization, owners of firm-specific capital are vulnerable to incomplete contracting problems and thus avoid arms-length market transactions. Establishing a physical presence through FDI is the solution to securing returns on firm-specific capital in foreign markets. MNCs tend to operate in oligopolistic industries (Caves, 1996). Their deep pockets and superior access

¹² While all of the new institutional approaches I introduced in the previous section provide clear predictions about FDI in India, the rational-material approach in IPE has provided the dominant explanations in the field, hence it is the focus of this critique. As the chapter progresses and I elaborate my own theory of preference formation I broaden my critique to other new institutional traditions, and embed my approach in the wider trajectory of institutionalist thought.

to technology allow them to overcome foreign market entry barriers and the “liability of foreignness” that arises from their unfamiliarity with the cultural, political and economic features of the local environment (Zaheer, 1995). Once established, MNCs’ firm-specific resources and capabilities are translated into competitive advantages that threaten to reduce domestic incumbents’ income and market share, increase competition in labor and product markets, and pressure domestic incumbents to exit (Barney, 1991; Caves, 1996).¹³

Analytic approaches for determining domestic firms’ policy preferences rely on deduction from theoretical expectations of changes in firm income and profits arising from the implementation of alternative policy options. The main divide, broadly applied in the politics of international economic relations, is between factor and sector-based approaches. Factor-based approaches rely on the Stolper-Samuelson (1941) theory, which suggests that when factors of production can move freely between sectors, policy shifts from protection to liberalization will increase the income of owners of factors that are relatively abundant in the economy (i.e. those in which the economy is well endowed) and lower the income of owners of the relative scarce factors (i.e. those in which the economy is poorly endowed). In developing country contexts like post-war India and Brazil, which comprise the objects of comparison in Chapter Six due to their structural similarities but divergent business and state preferences, owners and intensive users of scarce factors (usually capital) will be expected to support protection while owners and intensive users of abundant factors (usually labor) will support liberalization. Political conflicts emerge from differences in preferences between broad class coalitions, which in turn are based on a given country’s factor endowments (cf. Rogowski, 1989; Scheve and Slaughter, 1998).

By contrast, sector-based approaches rely on the Ricardo-Viner model. It assumes that at least one factor is fixed such that factors associated with sectors facing foreign

¹³ There is an alternative argument in the economics and international business literatures that FDI may benefit domestic firms through productivity improving technology spillovers but this is largely absent from the international political economy literature on the politics of FDI (though see Pandya, 2007). However, it plays an important part in the actual politics of FDI policy, as I show later in this chapter.

competition lose from liberalization. Following this model, and to the extent they are immobile, both capital and labor in import-substituting manufacturing sectors will be expected to oppose liberalization. Thus capital and labor in the protected post-war Indian or Brazilian automobile industries should *both* oppose FDI reforms. Political conflicts occur across sectors with cross-class coalitions of capital, labor and landowners who stand to benefit from liberalization on one side pitted against cross-class coalitions that stand to lose on the other. The key is factor specificity, i.e. the extent to which factors are closely tied to their sectors (cf. Milner, 1988). In summary, both of these theories predict - albeit via different mechanisms - that industrial capital in developing countries such as India will resist liberalization and lobby for protection. How then can we explain similarly situated Indian and Brazilian government and firm actors' contrasting preferences for FDI in the immediate post-war period, when Indian automobile firms sought limitations of the participation of foreign capital in India while their Brazilian counterparts were far more welcoming to multinationals? Not only does this structural approach fail to explain this sort of cross-national variation, these static approaches face challenges in explaining preference change, such as many Indian firms' growing preferences for FDI reforms in the post-1991 liberalization era. Chapter Six of the dissertation reveals the weaknesses of these structural approaches through cross-national comparison of varying preferences between India and Brazil that demonstrates the utility of recognizing preferences as socially and historically embedded cognitive and cultural schemas, while Chapter Eight demonstrates the utility of an understanding of preferences formation as dynamic and highly contested social and political process where preference change cannot be explained by deduction from structural position.

Open-economy Politics

The exclusive focus on material sources of preferences in the literature merits further attention. In many respects, Peter Gourevitch's (1986) claim that "what people want depends on where they sit" might be seen as the early forerunner of material interest-based approaches in comparative and international political economy (Blyth, 2009). However, the analytic move to combine political analysis with economic theory as described in the previous section aimed to provide parsimony and predictive power

though at the cost of Gourevitch's richness (Ibid). David Lake argues that deducing interests is the essential innovation of "open economy politics," which "begins with sets of individuals - firms, sectors, factors of production - that can reasonably be assumed to share (nearly) identical interests" and derives preferences over economic policy from each actors structural location (Lake, 2009:50). Indian firms' FDI policy preferences would thus be deduced from their structural position relative to multinational competitors in the global economy. These assumptions are vigorously defended as the standard for comparative and international political economy (Frieden & Martin, 2002; Lake, 2009).

The open economy politics (OEP) approach was developed in the 1970s to explain the significant variation in protectionism that was observed across countries and industries, and over time. It was rooted in dissatisfaction with earlier political economic analyses that were seen as unsystematic and lacking rigor. Frieden and Lake (2005:143) illustrate the point by citing Harry Johnson "who famously ascribed many countries' protectionism to a 'taste for nationalism,' [and] a willingness to 'direct economic policy toward the production of psychic income in the form of nationalistic satisfaction, at the expense of material income.'" By contrast the adoption of deductive economic approaches such as those based on 'rigorous' Ricardo-Viner and Stolper-Samuelson theories produced testable hypotheses and generalizable results thus underpinning a revolution in approaches to determining economic interests, policy preferences and political economic outcomes (cf. Alt and Gilligan, 1994). Concrete materialist interests displaced fuzzy cultural and ideational goals.

While this analytic approach grew out of trade analyses such as Rogowski's (1989) well-known study of the sources of cleavages in political coalitions, it is widely applied as the standard approach to non-trade areas of international economic relations including international financial and monetary policy (Frieden, 1991; 1994; 2005), product markets (Keohane and Milner, 1996; Bates, 1998), labor markets (Rodrik, 1997; Iverson, 2005) and foreign direct investment (Pinto, 2003). Theoretical and empirical developments in OEP later led scholars to incorporate the impact of domestic and international political institutions as mechanisms of preference aggregation and sites of bargaining amongst

competing societal interests at the domestic and inter-state levels (Milner, 1999; Lake and Powell, 1999; Frieden and Lake, 2005).¹⁴ OEP thus represents an important development in the wider ‘institutional turn’.

Much of this research was conducted by economists and was driven by a normative question that puzzled many of its proponents who wondered ‘Given that freer markets and economic liberalization is clearly good for countries, “Why don’t governments do what is *obviously* best for their societies?”’ (Rodrik, 2008). By contrast, political scientists saw “protection as the norm” and sought to explain why countries would liberalize at all: “Politically, protection seem[ed] eminently reasonable” (Milner, 1999). In economics, this question became a topic of interest for the voluminous public choice literature that applied neoclassical market analytic tools to non-market domains of social and political life. The mood of the time is best summarized by Gary Becker’s pronouncement that “the [neoclassical] economic approach is comprehensive one that is applicable to all human behavior” (Becker, 1976:8). Economic policies were the outcome of the political influence of powerful rent-seeking interest groups rather than idiosyncratic nationalism, as in the earlier Harry Johnson quote (Buchanan and Tullock, 1962; Stigler, 1971; Buchanan, Tollison and Tullock, 1980; Grossman and Helpman, 1994).¹⁵ Policy arenas characterized by diffuse costs and concentrated benefits such as trade and FDI were seen as particularly vulnerable to the rent-seeking activities of well-organized groups. Despite important criticisms, especially of the strict behavioral assumptions upon which it rested, the literature served to orient theorists on the distributional effects of economic policy and the implications for political action. We now turn to consider these three issues – behavioral assumptions, distribution and action – in greater detail.

¹⁴ Frieden and Lake (2005) see work on the mutual interaction between domestic and international political economy that incorporates both levels of analysis without imposing artificial barriers between them as the next step in the OEP research program.

¹⁵ These developments in the subfield of political economy reflected the growing dominance of neoclassical theory in economics and influence on other social science disciplines. Research programs in the political economy of development were significantly shaped by this public choice literature, particularly Krueger’s seminal (1974) paper on the ‘political economy of the rent seeking society’ as well as Bhagwati’s (1982) formulation of ‘directly unproductive profit-seeking activities’ (DUPs). See Maxfield and Schneider (1997) for a critique and discussion of how business collective action in developing countries can generate positive development outcomes.

Preference Ambiguity

These structural deductive theories, either separately or in combination (e.g. Hiscox, 2002), have done much to advance scholarly understanding of the sources of economic policy preferences in comparative and international political economy. Nevertheless, they have important limitations. Deduced preferences do not explain what in reality are far more ambiguous responses to liberalization. Economic actors reveal complex preferences that are a priori difficult to ascertain, even within a particular social class (e.g. manufacturing capital) or industry (e.g. automobiles). This has been demonstrated by empirical studies across a variety of country contexts (Schneider, 2004). Kingstone (1999) reveals how Brazilian industrialists did not resist external liberalization in the late 1980s and 1990s. Domestic capital changed positions and joined reformist politicians in a powerful coalition for free trade despite decades of privileges under import substitution policies. Similarly, in Mexico large domestic firms played a crucial role in supporting Mexico's trade reforms in the late 1980s and early 1990s (Thacker, 2000). In both cases, entrenched domestic incumbents that had reaped significant gains from protection appeared to act against their structurally determined preferences.

Preference ambiguity is not limited to developing country contexts. Woll (2008) shows how major US and European telecommunications firms like AT&T, Deutsche Telekom and France Telecom were unsure of their policy positions over liberalization of the global telecommunications industry. Their preferences evolved over the course of the negotiations from resistance to active support. The same findings hold when examining firm preferences in other realms of business politics. Martin (1995; 2006) reveals the striking indeterminacy of US firms' preferences for healthcare and labor market policies in the 1990s and 2000s. She is joined by Swenson (1991) and Mares (2003) in a growing critique of approaches that read business preferences off of structural capital-labor cleavages, which shows how capital has in many cases pushed for pro-labor policies.

This dissertation builds on these scholars' findings on the malleability and complexity of business preferences by highlighting empirical outcomes from foreign investment

reforms in India. The archival and field research conducted over the past five years similarly reveals that economic actors' preferences are far more ambiguous than structural-deductive theories predict.

Chapter Six places the argument in cross-national comparative perspective by examining post World War II industrial development efforts in India and Brazil. It shows how, despite occupying similar structural positions in the global political economy, having similar development goals of transforming their countries from primary commodity producers into modern industrial powers, and facing similar financial, technological and other material constraints in promoting manufacturing industry, India and Brazil adopted radically different approaches to regulating foreign capital. These differences were not limited to government policy; Indian and Brazilian business actors also pursued different strategies in engaging with foreign firms despite their similar size and organizational capabilities and facing the same global economic environment characterized by the aggressive post-war expansion of US multinational firms.

The chapter shows how these radically different preferences emerged from historically rooted variation in beliefs about the role of foreign versus domestic firms in the industrial development and wider modernization project. These beliefs informed the development of distinct cognitive schemas that provided actors with rationalized causal ideas linking FDI with industrial development outcomes. These rationalized ideas were underpinned by historically experiences that ascribed salient social meanings to the role of foreign capital in the pursuit of industrial modernity. Brazilian business and government actors welcomed multinational corporations as collaborative partners who could play a central role in capital accumulation and industrialization, while their Indian counterparts also recognized foreign firms were crucial sources of technology but viewed them as neo-imperialist instruments, and hence were much more wary of engaging with multinationals. Foreign capital was thus placed in contrasting categories of legitimacy in both countries. The chapter provides further empirical support for the main argument of the dissertation that economic actors' policy preferences cannot be deduced based on assumptions of rational behavior and economic actor's position in the socioeconomic

structure. Preferences are shaped by cognitive and cultural schemas, rationalized causal ideas imbued with historically salient social and political meaning. Economic interests and policy preferences thus are not automatically given; preferences are formed through historically embedded sociopolitical processes that shape the experiences and beliefs of economic and political actors.

Chapter Eight analyzes interviews and public statements of central government officials and managers of leading firms in industries such as automobiles reveals that their preferences over FDI policy emerge from a complex process of deliberation and contestation that takes place under conditions of significant uncertainty about the implications of FDI reforms for firm performance, industrial development and wider economic growth. The focus on preference formation as endogenously determined through a social and political process rather than preferences as an exogenous apolitical outcome of an actor's position in the socioeconomic structure aims to improve our theoretical understanding of the economic interests actors pursue and the ways in which they engage in the policymaking process.

IV. Preference Formation as a Contested Social and Political Process

The previous section focused largely on what might be considered 'static' policy preferences that can be deduced solely from economic actors' structural position. This section turns to consider the dynamics of preference change, which requires analysis of the interaction between competing actors in the political economy and interrogation of the behavioral models assumptions underpinning competing approaches to human action. The analytic focus on how economic actors - individuals, groups, firms, sectors or factors of production - are differentially affected by competing economic policy alternatives underpins predictions about policy preferences, political behavior and economic outcomes.¹⁶ Deducing policy preferences from economic theory has significant scholarly

¹⁶ Similarly, Buchanan (2003:1) contends that "The hard core in public choice can be summarized in three presuppositions: (1) methodological individualism, (2) rational choice, and (3) politics-as-exchange."

appeal. However, the rational actor model upon which it relies has restrictive behavioral assumptions that has been the focus of attention across the new institutionalisms. This section addresses the cognitive dimension of preferences as cognitive and cultural schemas that was elaborated in Section II. It does so through focus on the role of causal ideas as well as the mechanisms of Bayesian learning in the dynamics of preference formation and change. The level of analysis in this section is largely subjective, that is, it focuses on the cognitive processes taking place ‘in an actor’s head’. The ensuing sections of the chapter will turn to the cultural dimension of preferences and highlight the complementary *inter*-subjectively held and widely shared social meanings in which causal ideas must be embedded.

Cognitive Limitations:

Rationality and Behavior Under Complexity and Uncertainty

Prominent rational choice political scientist Margaret Levi (2009:118) suggests that the comparative advantage of rational choice lies in the assumption that individual actors with fixed and exogenously determined preferences make reasoned choices given the likely choices of others, subject to contextual and institutional constraints. Levi argues that the strategic interaction approach provides strong micro-foundations to macro-processes in comparative and historical political economy analyses that often rely on ‘descriptive’ narratives that are presumed to lack rigor (Ibid: 127; see also Bates et al, 1998; Frieden, 1999). Levi (2009) notes that the weaknesses, however, arise from the model’s narrow behavioral assumptions. The rational actor model relies on the critical assumption of complete information, which is rarely found in a world characterized by information asymmetries and pervasive uncertainty. Uncertainty not only arises from lack of information, but from the “complexity of causal relations in the social world which leads to unintended consequences and prevents the [rational] anticipation of outcomes” (Beckert, 1996:820). This has not only been a major area of analytic attention for macro-institutional analysts, but also for organizational scholars focusing on environmental complexity generated by multiple ‘institutional logics’ (Battilana and Dorado, 2010; Thornton, Ocasio and Lounsbury, 2012; Suddaby et al, 2010; Wry et al, 2013). This

complexity makes it difficult for actors to determine the rationalized causal relationships that provide the cognitive content of policy preferences.

New institutional economists have responded to these challenges by incorporating many of the significant developments in subfields of economics including information economics and signaling theory (Akerlof, 1970; Spence, 1973; Stiglitz, 1974), bounded rationality (Simon, 1976), transactions costs (Williamson, 1975, 1985; North, 1991), coarse sorting (Mullainathan et al, 2007) as well as technical advancements to capture multiple equilibria in general equilibrium theory and the use of game theory in deeply historical institutional analysis (Greif, 2005). Given these and related theoretical innovations, many new institutional theorists in the rational choice tradition would accept the claim that economic agents ~~may~~ lack the cognitive capacity to determine their interests under conditions of uncertainty, and would instead suggest that boundedly rational actors undergo a process of learning through Bayesian updating.¹⁷ As information is generated in the environment and received, economic actors update their priors and adjust their behavior, eventually bringing their actions in line with the predictions of deductive theory, if only with a time lag. Learning through Bayesian updating thus offers an important alternative explanation for preference change, and it has been increasingly incorporated in comparative and international political economy. Complex situations are conceptualized in terms of risk, and political and economic behavior is viewed as an outcome of a cost-benefit calculus where optimizing decisions are based on probabilistically weighted outcomes (Beckert, 1996; Woll, 2008). The rational actor model is deemed saved.

It is important to recognize that ideas, typically associated with historical institutional challenges to rational choice institutionalism, are in fact central to this process. The Bayesian updating process has an important place in the social learning literature (Weingast, 2005; Bates et al, 1998). However, it is the *mechanism* through which ideas shape preferences that distinguishes rational Bayesian learning from alternative

¹⁷ North's (2005) view of institutional change as a rational adaptive process provides a good example of the macro-level implications of this approach. It is particularly relevant to this research given North's view of institutions as a human response to problems of Knightian uncertainty.

sociological and historical institutional approaches. As Weingast (2005:162, 162) argues, “people’s preferences over actions change as a result of changing ideas...rational individuals change their minds in the face of evidence, and in so doing often change the political ends they pursue and the policies they prefer.”¹⁸ The process is akin to actors refining their beliefs through processes of information search to support continuous hypothesis testing, akin to conducting a cost-benefit analysis. In this theoretical framework, empirical ‘evidence’ is objectively and unambiguously assessed by actors, unfiltered by a socially embedded subjective or interpretive frame, as this dissertation suggests is the case. In the rationalist framework causal logics and ideas are detached from social meaning; actors are assumed to be able to judge different policy options objectively and chose their preferred policy approach accordingly.¹⁹ The findings of this dissertation suggest that this is at best a limited approach, as it ignores the social meaning that actors attach to causal relationships. This cultural dimension not only aids interpretation by helping actors to make sense of complexity through use of cultural symbols, narratives and tropes, by providing social meaning it also motivates action. Nevertheless, learning through rational processes of Bayesian updating serves as the dominant explanation for preference change in comparative and international political economy (Bates et al, 1998; Lake and Powell, 1999; Frieden and Martin, 2001).²⁰

¹⁸ Goldstein and Keohane (1993) further refer to “causal ideas” as the “means-ends schemas used to assess whether a specific set of actions will produce the intended results...Such causal ideas are constitutive elements of fundamental preferences, defining what game theorists sometimes term the pay-off matrix that precedes judgments made about the likely behavior of others” (cited in Hall 2005:135). Ideas serve as roadmaps in the authors’ rationalist formulation.

¹⁹ Thus an interpretive-subjective ‘cultural’ construct is absent in this largely positivist-objectivist model.

²⁰ An alternative approach employed in sociological institutional analysis also sees preferences emerging from ideas, but actors’ adoption of new ideas is not an outcome of rational processes of Bayesian updating; rather, actors learn new ideas through epistemic communities. As new policy ideas are developed they are transmitted through global networks of policy and management experts. Actors adopt ideas deemed to be legitimate by their peers and appropriate to the local circumstance(s) they face, and their common education and training experiences facilitates the acceptance of the rationalized causal ideas embedded in these new policies. That is, they ‘fit’ with what they have been taught and their acceptance further confers legitimacy to these actors who, despite their location in peripheral economies and societies, solidify their membership in the international community of experts. A, third approach associated with historical institutionalism, most notably Hall (1993), attempts to bridge the gap between the calculative mechanisms of rational choice Bayesian learning and ‘sociological’ approaches through which new ideas enter society through epistemic communities. This social learning approach emphasizes power and persuasion via authority contests through which new ideas gain legitimacy. These authority contests rely on discourse and debate as actors armed with competing causal ideas underpinned by contrasting meaning systems, contest in the political domain. This approach is most compatible to the view advanced in this dissertation.

Constructivism has emerged as a more fundamental challenge to the rational actor model. Many in this tradition agree that actors behave purposively and attempt to maximize, but question the process through which they determine their utility valuations and whether under conditions of uncertainty they have the necessary information and the cognitive capacity to optimize based on clear preference orderings (Beckert, 1996; Whitford, 2002).²¹ The issue is not whether actors behave ‘irrationally’ by acting against their self-interest, but rather how ‘intentionally rational’ actors make sense of their economic interests in complex situations and the implications for purposive behavior.

An example from data collected during my fieldwork illustrates the point and casts doubt as to whether preferences arise as a result of Bayesian learning processes. In a revealing interview with senior management representatives of a leading Indian automobile assembler we discussed whether changing views towards FDI emerged from a rational process where the management team constantly analyzed productivity, output, sales and similar data – as the Bayesian learning model would suggest - and used this information to revise their views towards FDI policy and the presence of multinational firms. Our discussion focused on a crucial period of the reforms of the firm’s own history. They were ending a long-standing partnership with a major multinational corporation and simultaneously developing a make-or-break new model. This is precisely the type of moment when firms might be expected to be particularly sensitive to the FDI policy environment. The response was that: “[We] *never* have all the numbers. And even if [we] did [have] the numbers, they *mean different things* to different people.”²² The ways in which economic actors interpret limited information is the central determining factor.

²¹ Economic sociologists reliance on purposive behavior counters the critique of an view of actors as ‘cultural dopes’ which sees actors’ behavior as over-determined as its ‘rational fool’ utilitarian counterpart (c.f. Kabeer 2000; Dobbin 2004). This longstanding disciplinary divide is reflected in Duesenberry’s (1960, p. 233) oft-quoted line caricaturing the difference between sociology and economics: “Economics is all about how people make choices. Sociology is all about why they don’t have any choices to make.” Also, following Sewell (1992) does not privilege material structure in providing the cultural schemas that drive actors i.e. many sociologists see structures as material and culture as the causal outcome of these material structures (Beisel and Kay, 2004:503).

²² Interview C23, April 2011. Emphasis added.

The reality is that even if actors had the cognitive capacity to engage in this rational calculus there is rarely sufficient information with which to update probability matrices and formulate and order their preference. Under these circumstances, the process through which Indian firm managers determine what FDI policies would best ensure their survival becomes an open question: actors may be unable to determine the means that will best allow them to realize their interests in survival and profitability. Deducing interests from structural position based on assumptions of rational behavior may be seriously misleading.²³

Preference Formation Under Complexity and Uncertainty

The existence of pervasive uncertainty raises serious questions about the ways in which economic agents formulate their preferences in complex environments. Consider the situation facing policymakers and firms in post-1991 India: domestic economic reforms were being instituted after more than thirty years of the highly restrictive import substituting regime pejoratively known as the ‘license-quota-permit raj’, and against the backdrop of the increasingly disconcerting phenomenon of globalization. This was a period of rapid institutional transformation when actors’ understandings of their social and economic worlds were thrown into flux. A rational-material view suggests that Indian policymakers and firms faced these environmental changes as situations of risk, where information is available for the calculation and assignment of weighted probabilities to alternative policy outcomes, thus facilitating a cost-benefit calculus and maximizing behavior. This view is not borne out by actual experience in India. By contrast, constructivists see a world of Knightian uncertainty where situations of economic change are characterized by an absence of information from which to formulate probabilities and order policy preferences (Beckert, 1996; Abdelal et al, 2005). More fundamentally, uncertainty is conceptualized as a lack of knowledge about causal mean-ends relationships (Beckert, 1996; Whitford, 2002; Blyth, 2007; Woll, 2008). These

²³ Instead, interviewees from this firm described a process through which they opted to partner with a firm with which it had previously had an agreement with during the import substitution era, even though thirty years had passed since that arrangement had been terminated because of a ‘sense of relationship’. In fact, many large Indian manufacturing-sector firms appear to follow firm-level routines wherein they opt to reinvigorate old partnerships. By contrast, Okada (1999) found that the decisions of many medium-sized auto firms was based on mimetic isomorphism and ‘follow the leader’ strategies (cf. DiMaggio and Powell, 1983; Haveman, 1993).

causal ideas provide the substantive *rationalized* content of actors' policy preferences and. This alternative view signifies that preferences are not unconsciously adopted, as sociological institutional formulations relying on the smooth flow of ideas through epistemic networks suggest. It raises the question of how economic actors make sense of these complex situations under conditions of uncertainty, particularly since in competitive environments they cannot afford to be paralyzed by uncertainty: they must act.

Purposive and intentionally rational behavior arises from social interactions that serve to facilitate the sharing of competing causal ideas claiming to be 'optimal' FDI policy solutions to achieve the fundamental interests of Indian business and state actors: firm profits and economic growth. This alternative approach to behavior under uncertainty recognizes actors' cognitive limitations and the complexity of their environment. Economic policy preferences are not generated exogenously from actors' structural position, but rather arise endogenously through social interactions where economic agents get together to "decide what they want and what to pursue" (Hall 2005:129). Preference formation is a dynamic discursive social process of intensive engagement between key economic actors from foreign and domestic firms and the state.

This view of endogenously determined interests and preferences has a rich intellectual history. Karl Marx recognized the complex process through which individual actors and groups developed conceptions of their interests, and how experience shifts a group's understanding of its situation. Antonio Gramsci (1971) developed this notion further by showing how discourse and narrative can be used to shape actors' perceptions of their interests, thus comprising important tools in the exercise of political power. Endogenous preferences also played a central role in the early institutionalism of Thorstein Veblen (1899), who saw institutions as 'shared habits of thought' that created the social context within which preferences were formed (Hodgson, 2004; Kingston and Caballero, 2009). Preferences and institutions are mutually constitutive, a view that is growing with the increasing dialogue between the 'new institutionalisms' as was noted in the introductory section of this chapter.

This raises important theoretical and analytic challenges. If the complexity of causal economic relationships creates uncertainty that precludes actors from determining their preferences “because the actual effects of actions cannot be fully anticipated,” analysts must turn to the cognitive and cultural mechanisms “that agents rely upon when determining their actions without knowing what to do in order to maximize their outcome” (Beckert, 1996:814). A view of preference formation as an active social process where agents engage in joint efforts to interpret information, make sense of their environment and formulate responses that they believe will best allow them to achieve their desired ends provides powerful insights into political dynamics and institutional development. This process is documented throughout this dissertation, from early economic nationalist interactions between nationalist leaders like Dadabhai Naoroji and R.C. Dutt in Chapter Three, or business leaders like G.D. Birla and J.R.D. Tata and top policymakers such as Jawaharlal Nehru, Morarji Desai and T.T. Krishnamachari in the late colonial and early independence period (~1940-1955) analyzed in Chapters Four, Five and Six. As Chapters Seven and Eight show, these business-state interactions became even more contentious between senior politicians and bureaucrats in the Ministry of Finance and Ministry of Commerce and Industry and the Confederation of Indian Industry in the early reform period of the 1980s and 1990s (Kochanek, 1995; Kantha and Ray, 2005; Sinha, 2005). This process of firms discussing problems and beliefs about appropriate solutions amongst themselves and with the government gives rise to significant opportunities for agency through processes of persuasion (Blyth, 2003; Abdelal et al, 2005). Actors’ preferences are shaped and re-shaped over time through this active social and political engagement. Critically, the *content* of preferences driving economic actors intentionally rational behavior must be populated by explanatory factors that go beyond rationalized causal ideas to include factors that arise from their social and historical context (Beckert, 1996; Whitford, 2002; Hall, 2005). This cannot be accomplished through imputation; it requires empirical study of social relations to understand how firms define and redefine their interests and preferences in *a priori*

unpredictable ways (Woll, 2008).²⁴ Variation in policy preferences at the firm, industry and country levels will arise from social, political and cultural factors rather than simply material interests, structural location or rational learning.

V. The Role of Power in Preference Formation

The process through which preferences are shaped provides a clear role for power, which is a controversial concept in the new institutionalisms. We have argued that preference formation is a process where actors determine which means are most likely to advance their ends. This involves “the development and deployment of causal ideas and efforts to persuade others of their validity. These processes entail the formation of ‘technologies of control’, through which causal relationships within the relevant parts of the social or natural world are posited” (Hall, 2005:135). It is an active process where economic agents engage in significant contestation based on competing causal ideas. Causal ideas become “weapons in distributional struggles” by defining both the causes of a perceived problem as well as the solutions for solving it (Blyth, 2001). Efforts at persuasion through social interaction are central to the process of preference formation (Blyth, 2007; Schmidt, 2008).

Power has always been a central analytic concept in the social sciences. Marx saw power as much more than coercion; power reflected the ability of actors to shape how others saw the world and made sense of their own interests. Weber saw power as operating through legitimation, where actors comply because they believed it is in their interest. However, despite its importance in early social theory and political economy, power has been unevenly incorporated across competing strands of new institutional analysis, a point that is revealed by exploring the intersecting dimensions of the twin tensions discussed in the introductory section. Structural-material theories such as those in the

²⁴ Woll (2007:12) suggests that under conditions of Knightian uncertainty “firms will rely on social devices to reduce uncertainty, such as traditions, networks, institutions and the use of power. These devices will become an important selection mechanism between several competing pathways to maximize self-interest.”

historical institutionalism paradigm have long accorded an important role to power (cf Skocpol, 1979; Steinmo and Thelen, 1992), a likely reflection of its genealogical roots in Marxist analysis. Power in this tradition operates through sanctions on agents for non-compliance, often through control of material resources or outright violence (Mahoney and Thelen, 2010b). By contrast, more agency oriented materialist traditions such as early rational choice theories saw institutions as devices of voluntary cooperation that resolved collective action problems to the benefit of all (cf Shepsle, 1989). This benign view tended to ignore power (though with important exceptions cf. Knight, 1992; Moe, 2005; Levi, 2009).

Constructivist analysis falls into two camps with respect to the inclusion of power that cut across the structure-agency divide. Structural-cultural approaches that rely on the institutionalization of taken for granted assumptions provided by cultural norms, such as Dobbin's (1994) exemplary account of how state actors embedded in different national cultures shaped variation in cross-national industrial policy outcomes, tended to downplay the distribution of power and resources amongst relevant actors in their explanations of the way the state organizes the economy (Campbell, 1998).²⁵ Similarly, the agency-oriented pragmatist approach has gained much attention for their view of the creativity of agents that allows them to forge new institutional arrangements largely unhindered by the fetters of social structure. Pragmatists criticize institutional approaches that confine agents within the bounds of national institutional arrangements, with Hall and Soskice's (2001) 'varieties of capitalism' framework often serving as their principal foil.²⁶ Agents have the ability to creatively recompose their institutional context or even break away from it entirely (Herrigel and Wittke, 2004:334). Pragmatists promote a "reflexive character of action in a social economy" where, for example, suppliers in

²⁵ Antecedents to this sociological institutional perspective can be found in Meyer and Rowan (1977) and DiMaggio and Powell (1983). Both of these see institutions and legitimacy as a constraint on actors, though note DiMaggio (1988) on agency and Fligstein (1997) on social skill (see also Beckert 1999).

²⁶ The focus on VOC is particularly interesting, not only because of its immense influence on the field of comparative political economy in the 2000s, but more so because of its intellectual roots and trajectory. Hall and Soskice (2001) is the collaborative product of a historical institutionalist who on one hand fits well in the Marxist-inspired structural-material mold but is also credited with bringing the ideational turn to comparative political economy that influenced a new generation (cf. Hall 1986, 1989, 1993; Blyth, 2002, 2011) and a rational choice economist.

declining industrial districts can reformulate their relationships with assemblers and other key players in the face of new competitive pressures, such as those arising from globalization (Ibid; see also Sabel and Zeitlin, 1997; Sabel, 2006; Herrigel, 2008; Herrigel and Zeitlin, 2010; Herrigel, 2010; Whitford, 2005; 2011). However, while pragmatist agency-oriented approaches accord well with institutional concepts like Fligstein's 1997 'social skill', pragmatists have been severely criticized for underplaying the role of power that is central in Fligstein's power-cultural approach in inter-firm relationships, where suppliers are typically seen as being in subordinate positions relative to assemblers, based on their size and structural location in the global economy (cf. Farrell, 2011).²⁷

More recently, power has been incorporated explicitly across the divides of new institutional analysis. Rational choice-based accounts such as Farrell's (2005) analysis of inter-firm cooperation contrasts sharply with Herrigel's (2008) pragmatist account;²⁸ while Acemoglu and Robinson's (2006) sweeping historical treatment of the emergence of capitalism and democracy as driven by actors exercising social, political and economic power brings contemporary rational choice institutionalism into dialogue with the classic analyses of Barrington Moore (1966) and Theda Skocpol (1979).²⁹ Similarly, power relations have played an increasingly central role in sociological institutional work, as political and economic sociologists have extended the classic view of power and preferences through empirical studies that highlight inter-related mechanisms of power and social construction (Dobbin, 2004:6). Fligstein (1990) showed how shifts in conceptions of management over the course of the twentieth century were not based on changing rationales of efficiency as economic historians (Chandler, 1977) and

²⁷ This tradition that spans much of the Global Value Chain literature (as well as work in economic geography) going back to at least Gary Gereffi's early work, which it should be noted emerged from the power-infused 'neo-Marxist' dependency tradition.

²⁸ See Farrell and Herrigel's revealing exchange based on Farrell's (2011) review of Herrigel (2010) and Herrigel's (2011) response where they explicitly discuss the role of power in the competing theoretical paradigms of new institutionalism and pragmatism, and the implications as seen in their own empirical work.

²⁹ Interestingly economists seem to be ahead of political scientists in this shift. Acemoglu and Robinson's most recent book affords power an even greater analytic and causal role. Greif (2006) also discusses the role of hierarchical power, albeit briefly. Moe (2005) also notes that public choice theorists also afforded a role to structural power through rent-seeking interest groups. Levi (2009) joins him in calling for further work on power by political scientists.

institutional economists (Williamson, 1985) have argued, but rather were due to struggles over corporate control by competing management groups. Roy (1997) showed how the rise of the large American conglomerates at the turn of the twentieth century resulted from a powerful group of bankers led by JP Morgan promoting the view that oligopoly was efficient and thus gaining policy support for massive consolidation in early American manufacturing industry, epitomized by firms such as US Steel. Perrow (2002) argued that large-scale capitalism did not emerge in the US because it was more efficient than small-scale production, as some economic historians have claimed, but was an outcome of a small group of wealthy industrialists efforts to control the economy. Dobbin and Zorn (2005) extend this “power-cultural” approach by showing how external groups designed new corporate strategies and used their market power to impose them on firms.³⁰ In both cases economic agents imposed their preferences for particular managerial models on others, then used new theories of managerial efficiency to rationalize and legitimize their actions ex post: operations, marketing and finance theories in turn in Fligstein’s case and theories of “core competence” in Dobbin and Zorn’s.³¹ The empirical chapters of the dissertation similarly show how powerful actors attempt to influence the preferences of others through their engagement in the policymaking process at numerous points in Indian economic history. These actors deploy causal ideas that suggest optimal approaches to regulating FDI that will not only serve their own interests, but will be in the interests of all. This is most evident in debates over MNC entry in Chapter Eight where leading Indian industrialists frame their argument for restrictions on MNCs in terms of ultimate technological benefits for the Indian economy writ large.

³⁰ In the 1980s hostile takeover firms created the strategy of leveraged buyouts to acquire diversified conglomerates and break them up, earning huge profits by selling the individual parts for more than the whole. Promoters convinced shareholders and investors that they would reap benefits from higher share prices and the wider economy would gain from a more efficient market for corporate control as part of the quasi-populist “shareholder value movement”. Two mechanisms were key, and both highlight the interaction between material and constructivist factors in understanding preference change: first, the promotion of stock option-based executive compensation, which aligned CEO’s incentives with their own and second, the role of securities analysts who “low-balled” diversified conglomerates, driving down their share price and making them more vulnerable to hostile takeovers.

³¹ In later work, Fligstein (2008) has referred to the ability of “institutional entrepreneurs” to induce cooperation in others as a critical “social skill” that allows actors to influence the direction of institutional change. This is part of the push towards a more actor-centered view in economic sociology (cf. Campbell, 1998). See also Battilana (2006) who builds on DiMaggio (1988) to develop similarly agency-centric institutional arguments in organizational studies (see also Beckert, 1999).

These cases also illustrate how actors' relative resource endowments matter in dynamic political economies characterized by contesting ideas and battles over distributional outcomes. Given the asymmetric distribution of financial, organizational and political resources all actors do not have the capacity to engage equally: everyone doesn't have the same voice. This is not to suggest over-determinacy where causal ideas simply reflect the material interests of the powerful, as Campbell (1998) stresses, but rather the importance of considering the interaction between material interests and causal ideas. This provides a realistic picture of purposive and competing agents striving to make sense of their preferences and construct institutions that they believe will allow them to achieve their fundamental interests. Power and agency are accommodated in accounts that retain structure, providing excellent examples of the mutual constitution of actors, preferences and institutions.

VI. The Substantive Content of Preferences:

Cognitive and Cultural Schemas as Rationalized Causal Ideas Imbued with Historically-Salient Social Meaning

Evidence from my field research in India reveals that economic actors' efforts at persuasion and deployment of persuasive discourse to influence preferences and attain cooperation in shaping the institutions of FDI policy can be analyzed around three key areas: rationalized causal ideas, socially meaningful symbols narratives and conceptions of technology. These play a powerful role as mutually reinforcing but analytically separable components of the means-ends relationships that constitute FDI policy preferences. The section below provides greater insight into the roles of rationalized ideas, symbolic narratives and technology in the process of FDI preference formation.

Rationalized Causal Ideas

Section II argued that rationalized causal ideas drawn from economic theory are an essential constitutive element of policy preferences. By positing causal relationships among economic variables, these rationalized ideas provide the substantive content of the

cognitive link that economic agents make between government policies and economic outcomes. Economic theory provides the causal connection between a given policy and its economic outcomes and distributional effects. Hall (2005:141) argues that these theories are “indispensable in the economic sphere since we do not see the economy with the naked eye but live in the imagined economies constructed by economic theory.” Preferences thus turn heavily on the cause-effect relationships posited in prevailing theories (Ibid). This is reflected in the twentieth century historical movement between theoretical paradigms of Keynesianism and Monetarism in the advanced industrialized countries, as well as from import substituting industrialization to economic liberalization in the developing world. These epochal movements between techno-economic institutional arrangements reflected shifts in distinct belief-systems based on competing economic technologies. The rise and fall of Keynesianism in the US and Western Europe was the outcome of changing policy preferences (Blyth, 2002), as was European governments’ decisions to enter into monetary union (Hall, 2005) as well as many developing countries adoption of trade and investment policy packages associated with neoliberal globalization and the Washington Consensus. Further, governments are not alone in being susceptible to the ideas that drive these macro-institutional shifts; they also occur at the firm level as the studies by Fligstein (1990) and Dobbin and Zorn (2005) showed, and to which the findings of this dissertation also attest.

These theories are not simply technical artifacts, but rather function as mechanisms of distribution, power and control. Just as the shift from Keynesianism to Monetarism is seen as having momentous distributional effects between capital and labor, not least as a result of the impact on the viability of the welfare state, so too have the predictions from economic theory about the effects of FDI policy provided the rationale for economic agents’ belief that a liberal FDI policy regime will be either good or bad for a given sector, industry or firm. These theories and the policies they imply directly determine distributional outcomes between foreign and domestic firms in India. Preference formation is an inherently contentious and political process: it is a high stakes game. However, the central role of economic theory in preference formation introduces an element of indeterminacy as economic theory itself often provides ambiguous policy

direction to economic agents, particularly under conditions of uncertainty. This provides opportunities for economic agents to persuade others to pursue the courses of action that they believe will best allow them to achieve their interests.

The indeterminacy of economic theory is well recognized in empirical studies of policymaking. Hall (2005) showed how after 15 years of debate British officials were unsure of whether joining the European Monetary Union would advance the nation's interests. Even after inception the effects remained unclear. Certainly in the context of FDI theory the relationship between FDI liberalization and economic outcomes for domestic firms has long been ambiguous. FDI liberalization may either lead to displacement of local companies as more efficient MNCs enter the market, or it may lead to increases in domestic firm productivity and hence competitiveness through technological spillovers. These are the competing theories that shape FDI policy preferences and contestation between actors in the policy arena.

As shown in section IV, the arguments against FDI liberalization rest on the expected distributional effects of FDI liberalization, where efficient MNCs threaten to outcompete and ultimately displace their domestic counterparts. By contrast, the main argument in favor of liberalizing FDI in a developing country context sees MNCs' superior technology as a potential advantage, suggesting that FDI facilitates productivity spillovers that domestic firms can capture. A brief review of the literature serves to highlight the issue. In early scholarship on FDI, Caves (1971) used sector-specific data to find positive productivity spillovers from MNCs to local firms. FDI was held to provide benefits through three distinct mechanisms: allocative efficiency through pro-competitive effects, technical efficiency through demonstration effects and technology transfer through access to know-how on favorable terms (Caves, 1974). These and similar results were heavily promoted by powerful global actors such as the IMF and World Bank as they pushed developing countries to adopt neoliberal economic reforms including deregulated foreign direct investment regimes from the 1980s until today.

These policies were promoted despite increasingly ambiguous evidence of the beneficial effects of FDI, including the most widely cited article, which was co-authored by an IMF economist. Aitken and Harrison (1999) critique studies using sectoral data by pointing to identification problem: studies focus on industries where domestic TFP already high. They use Venezuelan plant-level panel data and a fixed effects model to show that FDI does not generate significant intra-industry productivity spillovers.³² Other studies have increasingly found negative effects across factor and product markets. Aitken, Harrison and Lipsey (1996) found that domestic total factor productivity was negatively impacted as foreign competitors bid up wages and hired away talent workers. Markussen and Venables (1999) found that local firm sales were hurt by MNC entry leading to productivity decreases from the effects of adjustment costs on input usage or the ability to capture scale economies.³³ More recent studies have only increased the ambiguity by identifying contingent effects: Javorcik (2004) found vertical spillovers arising from backward linkages from MNC customers to their local suppliers, but no intra-industry effects through horizontal spillovers or forward linkages. Buckley et al (2007) illustrated a potential temporal effect through an inverted U-shaped relationship, with total factor productivity rising with small levels of MNC entry and then falling as more MNCs enter the market.³⁴

This theoretical and empirical ambiguity in the scholarly literature hardly deters economic agents from drawing on these arguments in their efforts to convince others of their preferred FDI strategy. On the contrary, these opposing economic arguments

³² Some find it somewhat ironic that the seminal paper in the field was co-authored by an IMF economist, given that the IMF and World Bank have been unwavering in their claims that FDI promotes positive spillovers for domestic firms.

³³ Joint ventures have historically been posited as a solution to this distributional conflict, by encouraging technology transfer from foreign to domestic firms, and as this dissertation will show, joint ventures have been a central part of Indian FDI policy through its independent history. However, rather than reducing political contestation over policies and preferences these hybrid organizational forms serve to bring the tension between cooperation and competition amongst foreign and domestic firms from the policy arena into the boardroom. This process is detailed in different historical periods in Chapters 3 and 5.

³⁴ From a political economy standpoint it is important to note that most of these studies focus on the sectoral or industry level and say little about distribution amongst domestic firms. That is, even if there are positive spillover effects in a given industry such as autos or pharmaceuticals *which* domestic firms might actually capture them? This ambiguity brings us back to the original critique of rational-material behavioral predictions arising from dominant political economy theories. It highlights the importance of uncertainty as well as heterogeneity in beliefs between actors in providing a role for politics and persuasion.

constitute valuable resources that are used by competing actors in their efforts to shape FDI rules to their liking. Ambiguity creates a space for politics that would likely be foreclosed if causal economic relationships were unquestioned. This policy contest to influence preferences and outcomes takes place in a variety of public and private spaces. The domain of public discourse through the media has been an especially brutal battleground alongside closed-door discussions between individual firms, industry associations, lobbyists and different representatives of the government. Domestic firms that believe they can benefit from technology transfer from MNCs push for rules that mandate local-foreign firm partnerships through joint ventures or the use of domestic suppliers while others that are more skeptical of MNCs utilize theoretical arguments of market stealing effects to make their case. Foreign firms are also important players in this arena. They deploy theories that purport FDI providing broad efficiency gains at the industry level and implications for employment and economic growth that shape key actors preferences and wider public opinion.³⁵ In the absence of a scholarly and policy consensus the legitimacy of these competing theoretical arguments relies on factors that are beyond the merits of the causal ideas themselves, including the social, economic and political resources – which is to say the power - of economic agents striving to shape the FDI field (Fligstein, 2008).³⁶ It also heavily relies the extent to which competing actors are able to imbue these causal ideas with historically salient social meaning, as is further described below. These discursive dynamics are analyzed in greater detail in throughout the dissertation using an array of historical and contemporary evidence from business and government archives in India, the United States and the United Kingdom, interviews with business and government representatives, policy documents, policy position papers from industry associations and firms as well as policy statements and debates between key protagonists that are carried out in the media and other areas of the public domain.

³⁵ This argument, which is supported by evidence drawn from policy submissions by business actors and statements in the media that illustrate opposing sides of these arguments, is detailed in the empirical chapters of the dissertation, particularly Chapter Eight on the current liberalization period (1991-2012).

³⁶ Social resources include legitimacy, economic resources capture the financial power that actors have to promote their preferred view while political resources include personal relationships and connections with politicians, bureaucrats and other key decision-makers.

The Historically Salient Social Meaning in Cognitive and Cultural Schemas

Salient and social meaningful symbols and narratives play a key role in shaping economic actors' policy preferences. Narratives are socially embedded cultural devices that allow economic actors to make sense of the economic world by providing inter-subjectively held interpretations of important events that shape actors' interpretations of the rationalized causal relationships in the material world. Economic development and modernization can be viewed as a series of "societal projects" (Dobbin, 2004) that are based on a specific set of ideas - economic growth, industrialization, democracy - which are operationalized in the policy realm by following the prescriptions of prevailing social and economic theories that spell out the means to achieve them. In this respect "policy is only partly driven by material forces...Its route also depends on sequence of events a nation faces and grand narratives devised to explain what it should do in the face of such events" (Hall, 2005:137). History and the interpretation and social meaning of past events is thus central in understanding the policy preferences that actors hold.

Cultural symbols and economic theory have played mutually reinforcing roles in the Indian FDI policymaking process. Actors try to comprehend otherwise technical and ethereal economic policies by linking them to a larger sense of nation and history. How else to make sense of the murky modalities of technological learning and the confusing prescriptions of contradictory economic theories than to connect it with stories of travail and triumph of entrepreneurial domestic firms? Tata Steel's late nineteenth century struggle to establish a domestic steel industry against strident foreign opposition before eventually prevailing against both the colonial government and British competitors and rescuing India's nascent railroad construction projects during the steel shortages of World War I provides an excellent example. Similarly, popular conceptions of the 'new economy' I.T. giant Infosys have redefined how India is viewed in the global economy and, more importantly, how Indian firms are viewed at home. The Infosys story has been heavily employed to project a view of Indian firms as no longer the producers of shoddy and outdated manufactured goods epitomized by the indefatigable Hindustan Motors Ambassador with its 1950s design and engineering, an important narrative in itself that needed to be replaced to make the unevenly distributed pain of neoliberal adjustment

politically acceptable. It promotes FDI liberalization by shouting ‘we can compete.’ ‘India Inc.’ now symbolizes trailblazers of a rising India in the digital age of globalization, churning out dozens of new billionaires each year amidst widespread poverty and depravation and providing the inspiration for Thomas Freidman’s (2005) emblematic though certainly misleading *The World is Flat*.³⁷

Analyzing narratives and the ways in which they are interpreted and reinterpreted over time provides insights to the contested nature of history. It allows for “discerning how one account comes to be accepted as ‘what really happened’ while other plausible stories are rejected”, and provides a perspective from the worldview of actors of why, in a given context, certain actions are taken while others are either rejected or not considered at all (Ross, 2009:149). Narratives are infused with symbols and metaphors that capture the imagination, galvanize potentially fractious groups and motivate action; they imbue actors with “social purpose” (Abdelal, 2001). Chapter Three shows how the nationalist concept of ‘*swadeshi*’ encapsulated a powerful narrative that promoted domestic ownership of industrial capital. *Swadeshi* symbolized the ethos of the ‘Be Indian, Buy Indian’ anti-colonial rallying cry and was synonymous with the nationalist independence movement. *Swadeshi* provided a powerful cognitive and cultural frame with which to motivate and unite rising Indian political and economic actors as they struggled against the British Imperial system that intertwined colonial governance with British commercial and industrial capital. Crucially, it had important distributional implications between Indian and foreign firms, as rising Indian capitalists fought to establish themselves in nascent manufacturing activities such as jute and textiles that were dominated by British managing agencies in early industrializing India.³⁸ It dates back to the first *Swadeshi*

³⁷ The title of the book arises from the term he coined after a heady day of golf on the courses of the ironically quite exclusive Karnataka Golf Association (KGA) in Bangalore was capped by an interview Infosys co-founder Nandan Nilekani. In describing the rise of Infosys, and by extension India’s global IT industry, Nilekani left him with the following phrase that “rang in [his] ear.... ‘Tom, the playing field is being leveled’.” The term the ‘level playing field’ has itself become a powerful metaphor in the politics of FDI policy and played a central role in the construction of policy preferences in the 1990s. As such it is not by chance that Nilekani used it, nor that it resounded so deeply with Friedman. The role the metaphor of the ‘level playing field’ has played in battles between foreign and domestic firms over policies governing joint ventures is discussed in Section VII of this paper and detailed in Chapter Eight of the dissertation.

³⁸ It also had important implications for distributional struggles between large and small firms, as the enduring image of Mahatma Gandhi sitting and spinning his own cotton on a handloom on the earthen floor

Movement (1905-8) that called for a boycott of foreign goods (Encarnation, 1989) and helped to launch India's independence struggle.³⁹ This nationalist narrative co-evolved amongst key figures in business and the state, including India's leading two industrialists JRD Tata and GD Birla, as well as its political leaders, Mohandas Gandhi and Jawaharlal Nehru. And as chapter 4 shows through comparison with Brazil, the view played an important role in shaping the regulation of foreign investment in the early ISI period as the Nehruvian goal of 'self-reliance', which represented a particular conception of foreign versus domestic technology in promoting manufacturing industry, came to the fore.

Just as economic theories are not mere technical artifacts, symbols and narratives are not just stories. They are resources to be utilized by economic agents seeking to convey a particular understanding of the world and courses of actions that should be pursued. Symbols, like interpretations of economic theory, provide key opportunities for agency. The empirical chapters of the dissertation reveal key moments in India's modern economic history when well-positioned actors deployed socially meaningful symbols that shaped the direction of policy change. These "norm" or "institutional entrepreneurs" possessed "social skills" that allow them to play central roles in constructing feasible possibilities, particularly in the context of crises or institutional flux (DiMaggio, 1988; Finnemore and Sikkink, 1998; Fligstein, 2008). We see this in Chapter Five's analysis of late colonial era with the rise of Gandhi as the symbol of the independence movement, as well as in the early post-independence period with the success of Nehru's powerful 'scientific socialist' vision for India's industrial development. Much was accomplished in terms of promoting 'self-reliance' and controlling the 'commanding heights.' However, it is important to note that this process was not deterministic. Despite Nehru's strong

of a village hut as a powerful symbol of 'traditional' cottage industry contrasted strongly with Jawaharlal Nehru's 'modernist' view of large-scale industrialization 'from the commanding heights'. Just as Gandhi's village industry metaphor reflected a development strategy based on small rural enterprise, nowhere is Nehru's belief in the emancipatory power of big industry and science and technology better captured than in his advocacy of India's space program. This internal struggle between large and small firms was central to Indian industrial policy throughout the import substitution period and persists to this day.

³⁹ The threat of swadeshi industrial policies along with political pressure from the Mahatma Gandhi-led 'Quit India' movement played an important part in precipitating the departure of British capital and resulting massive transfer of productive assets to nascent Indian capital at the time of independence (Kidron, 1965; Encarnation, 1989).

position as the Prime Minister who led India into independence in 1947 as head of the dominant Congress Party, there were important competing views that emerged from key actors within his cabinet as well as from major industrialists who sought to undermine key elements of Nehru's dream. Chibber (2003) provides a compelling account of Nehru's inability to vest sufficient power in the Indian Planning Commission such that, unlike the prototypical Korean development state, it could not fully implement efficacious state-led economic planning. Similarly, Tyabji (2010) shows how Nehru's curiously caved in to private domestic and foreign pressure against his desire to establish state-owned firms as the primary producers of the key drug penicillin, which would have placed an Indian public sector company at the pinnacle of the nascent pharmaceutical industry. The causal power of conceptions of modernity and progress crucially depend on how they are deployed. This point is important to show that a conceptualization of economic life based on a constructivist theory of power and agency is not to suggest that some actors are 'all-knowing heroes', rather it aims to highlight the ongoing contestation between economic agents jockeying to shape the rules that govern inter-firm competition that would allow them to achieve their perceived economic interests.

Conceptions of Technology in Industrial Development

A discussion of competing conceptions of technology in India's FDI debates provides an excellent example of the how cultural schemas comprised of mutually reinforcing but analytically separable rationalized causal ideas imbued with historically salient social meaning constitute FDI policy preferences. Much of the rationalized logic drawn from economic theory as well as the socially meaningful historical narratives that are deployed in FDI debates are oriented around particular inter-subjective 'conceptions of technology' held by business and state economic actors. These conceptions endow abstract causal relationships with social meaning by specifying the role that technology plays in the process of industrialization and the wider national development project. These conceptions of technology are central to Indian business and government agents' understandings of the implications of foreign direct investment and for domestic firms. Technology is the central concept around which both promotion of and resistance to liberal foreign investment policies and multinational firms has long been organized and is

central in current FDI debates, particularly around joint ventures: MNCs will either support or destroy the aspirations of developing domestic firm capabilities depending on whether they share efficient foreign technologies allowing Indian firms to increase their competitiveness, or use their technological advantage to put them out of business. This view of the role of technology in shaping actors' FDI policy preferences is robust over time. For Indian business and government agents, industrial technology was deemed necessary for India to move towards modernity in the late colonial and early post-independence period and is similarly viewed as the critical element required for an ambitious India to establish itself as a global player in the current moment of economic liberalization and hyper competitive globalized world market. As such the politics of FDI policy have consistently turned on the competing views of technology that actors projected as they battled in the policy arena.

Conceptions of technology are products of the 'sociotechnical imaginaries' of key actors in India's economic history. Sociotechnical imaginaries refer to "imagined forms of social life and social order that center on the development and fulfillment of innovative scientific and/or technological projects" (Jasanoff et al, 2007:1). This analytic device is drawn from the field of science and technology studies and allows for a deeper consideration of the meaning technology holds for key actors and the role technology is expected to play in industrialization and development. It provides insights into the social construction of late development where technology has played *the* central role in economic agents' understandings of the path to international competitiveness and economic growth.⁴⁰ Technology is a resource for economic growth, development and modernization to fulfill national aspirations. It is laced with imperative within a wider context where success in attracting and absorbing 'world class' technology is the difference between catching up and falling further behind.

⁴⁰ Imaginaries are a "crucial, constitutive element in social and political life." They are an enabling cultural resource that "helps produce collective systems of meaning that enables the interpretation of social reality." Imaginaries provide "a shared sense of belonging and attachment to a political community." These imaginaries are imbued with an implicit understanding of the social world and the public good and are "closely intertwined with nation-building projects." Critically for our purposes, they "encode visions" of the future that are "projected" onto state and society, "shap[ing] the trajectory of" technology policy and the pattern of industrial development with its accompanying distributional implications (Jasanoff et al, 2007:5).

Visions of technology are deeply embedded in salient and socially meaningful nationalist narratives. President John F. Kennedy's 'race to the moon speech' projected a galvanizing vision of what technology could accomplish that was deeply intertwined with American exceptionalism and the cold war. More recently, President Obama has cited technology as the source of the America's historical economic dominance and the key to restoring America's lost economic power. The vision of technology that he was promoting centered on revitalizing the American auto industry in Detroit, at once the most powerful cultural symbol of the early twentieth century boom in American industry as well as its twenty-first century decline. The power lies in actors' perceptions of what technology is and what it can accomplish. This underscores the constitutive element in actors' policy preferences.

The key point is that technology itself is socially constructed: it is a black box waiting to be filled with socially meaningful symbols and representations. The ambiguity inherent in the idea of 'science' and 'technology' creates a critical space for politics. Actors use notions of technology and "the dazzling range of meanings and functions it represented" (Prakash, 1999:7) to advocate for their preferred policies. 'Technology' provides opportunities for economic actors to project their own conception of what it is and what it can be. As such, much of the politics of FDI in India arises from clashes between competing sociotechnical imaginaries held by dueling actors. Despite the near-universal importance of technology for fulfilling societal aspirations, it is rarely captured by a single accepted vision. As with other forms of social and political life it is highly contested. This politics of contrasting visions of technology was revealed in the outwardly projected technological visions of India's two 'founding fathers' Mohandas Gandhi and Jawaharlal Nehru. The narratives they constructed to convince others buy into their political goals diverged dramatically with tremendously different distributional implications for India's development path. In many respects, nothing could be more different than Gandhi's conception of simple, 'traditional' indigenous, village-based production based on the handloom. It was an explicit rejection of industrial policies that were aimed at supporting British-owned industry and served as a symbol of colonial

resistance. By contrast, Nehru's dream of large-scale 'industrialization from above' entailed such 'modern' industries as automobiles, chemicals and steel. His deeply-held belief in the emancipatory power of modern technology underpinned his advocacy of heavy investments in science and technology and was crowned by his support for an Indian space program.⁴¹ In many respects these visions embody the oft-cited contradictions that characterize today's India: 'India shining' amidst pervasive poverty marked by social depravation and political strife. This political tensions stretch across multiple cultural and analytic categories: urban-rural, large firm-small firm, 'traditional'- 'modern', and critically for our purposes, foreign-domestic.

VIII. Conclusion

This chapter provided the theoretical framing for the wider empirical analysis conducted in this dissertation. It proposed a theory of the sources of policy preferences as cognitive and cultural schemas, rationalized causal ideas imbued with historically salient social meaning. It challenged dominant theoretical conceptions of preferences by analyzing how FDI policy preferences of business and government actors evolved over time. The chapter argued that political economy theories predicting economic and political actors' policy preferences are naturally endowed, are determined by socio-economic structural position or are produced by rational calculation are misleading. Instead, it offered a view of economic agents' policy preferences as constructed through processes of sociopolitical contestation as economic actors seek to establish themselves as the legitimate actors through whom the state's development ambitions should be pursued. The analysis conducted in the next six chapter of the dissertation demonstrate how analytic attention to long run sociopolitical dynamics reveals continuous processes of socio-political contestation. In order to understand the sources of economic policy preferences and make sense of policy contestation we must understand the ways in which socially embedded

⁴¹ India's technological ambitions at this time are clear as it formally launched its space program in 1962, shortly after the Sputnik landing and the same year that J.F. Kennedy made his famous moon landing speech.

agents continuously interact with their institutional environment by seek to establish their legitimacy and entrench dominant positions through continuous political contestation.

CHAPTER 3

Institutional Origins: The Rise of Indian Economic Nationalism (1870-1905)

I: Introduction

This chapter identifies the institutional origins of Indian economic nationalism in the late 19th century. It explains how Indian nationalists emerged, how these actors' preferences towards foreign capital were shaped and, along with the next two chapters, how these preferences evolved through the late colonial period up to independence in 1947. Together these three chapters establish the material and cultural foundations of the institutional environment of industrial policymaking. This environment was structured by competing causal ideas and social meanings that served as resources in political contestation between rival actors in the late colonial, post-independence import substituting industrialization and economic liberalization periods. Empirically, the chapter proceeds by focusing on the discourse and debates around competing representations of domestic and foreign economic actors' legitimacy in the Indian economy. It shows how these debates shaped the emergence of a unique Indian economic nationalism, and highlights the implications for economic policy, industrial development and market outcomes in the late colonial period.

The chapter begins to operationalize the overarching theoretical framework of the 'twin tensions' in the new institutionalisms introduced in the Chapter One. It focuses on two areas in particular. First, it analyzes institutional origins by showing how institutions were mutually shaped by subjective-cultural and objective-material factors. The approach captures the crucial link between the concrete material processes of British imperial hegemony and the uneven development it created, and the cultural categories of meaning and practice -- including those of imperial domination as well as nationalist resistance -- that co-evolved in the late 19th century global political economy. Rather than assessing these material and cultural factors as separate or competing explanations, as do strands of the political economy literature from rational choice to pragmatic constructivism (cf. Lake and Powell, 1999; Levi, 2009; Herrigel, 2008, 2010), this dissertation argues that they are in fact but "two translations of the same sentence" (Bourdieu and Wacquant,

1992) that should be placed in the same analytic framework (cf. Bourdieu, 1977; Giddens, 1984; Sewell, 1992; Fligstein, 2008). Second, the analysis places actors and agency at its core. The chapter shows how Indian nationalist actors creatively combined indigenous and foreign ideational and cultural resources to construct novel cognitive and cultural schemas suited to their own political-economic context. These schemas provided new causal ideas and social meanings to interpret concepts of economy, technology and nationalism. Schemas not only helped actors make sense of the complexity of their institutional environment, they also served as powerful weapons to challenge British imperial hegemony by legitimizing and delegitimizing the behaviors and practices of emerging Indian and dominant foreign economic actors. This agency-oriented creativity resonates with the emphasis of pragmatists like Herrigel (2008; 2010), but the analysis shows how creative capacity is contingent on actors' resource availability. Power is crucial, a factor that agency-oriented materialist and constructivist traditions -- rational choice and pragmatism -- have too often downplayed (cf. Farrell, 2011). The chapter thus begins to demonstrate the utility of the theoretical framework developed in the previous chapter for providing richer explanations of political economic outcomes.

To do so, this chapter employs Sewell's (1992) conception of social structure as "dually" comprised of structural-material as well as cultural-constructivist resources. Agents play a central role in this framework through their capacity to "reinterpret and mobilize an array of resources in terms of cultural schemas" and to "transpose and extend [those] schemas to new contexts" (Sewell, 1992:19; see also Goswami 2002:784).¹ This agency-centric view contrasts with alternative cultural approaches such as the 'world society' theories of Meyer et al (1997) that analyze the diffusion of ideas but see the adoption by actors as passive imitation (Go, 2012). Sewell's theoretical antecedents lie in Giddens's (1979; 1984) notion of duality of structure and dynamic processes of structuration and Bourdieu's (1977) ideas of habitus. These allow his framework to avoid both material and ideal determinism; however, Sewell identifies important limitations with their

¹ Cultural schemas comprise systems of thought and meaning through which actors make sense of their social and economic worlds. It provides actors with insights in how society and economy should *and* actually does operate; that is, it has both normative and positive connotations (cf. Sewell, 1992; Wedeen, 2002; Dobbin, 2004; Adal et al, 2005,2010).

conceptions of power, agency and the capacity of actors to alter the social structures in which they are embedded. He argues that to reconcile a theory of change with a theory of structure, one needs a 'fractured' rather than rigid conception of social structure that provides entry points for agents to challenge dominant structures.

This cultural sociological approach accords well with political economists' focus on conflict and contestation. The utility of the framework is revealed in this chapter through the contradictions of the British colonial project and the entry points it provided for nationalist agents who had knowledge of imperial cultural 'schemas', that is, the system of intellectual control that the British wielded through rationalized causal ideas of science and economics. This knowledge empowered well-positioned actors to devise creative critiques that became the nationalist position. Thus actors' location in social structure matters, but is not deterministic as structural-functional theories suggest. Structural position in socially defined categories of class, race, nationality, wealth, education, occupation and social prestige are important because they provide "knowledge of different schemas and access to different kinds and amounts of *resources* and hence different *possibilities* for transformative *action*" (Sewell, 1992:21).

The rest of this chapter is organized as follows. The next section provides a definition of economic nationalism and situates late colonial India in the wider 19th century global political economy. It shows how colonial administration of India shifted from the British East India Company to direct control of the British Crown. It highlights the role of the Colonial Government in consolidating the territory and economy of the subcontinent, and the implications of this extensive institutional reorganization for the emergence of a new Indian nationalist consciousness. Section III then describes the role of colonial economics and science in shaping the physical and institutional environment of the colony, while Section IV shows how emerging nationalist actors formulated creative critiques of British economic governance. Section V illustrates the emerging debates and contestation between colonial and nationalist elites around the effects of trade policy on nascent Indian industry, as well as the mass agitations that ultimately resulted. It reveals the tensions around the relative roles of foreign and indigenous capital in India's industrial

development that would define much of the first half of the 20th century leading up to independence. Section VI concludes with a brief summary of the arguments and their relation to the material in the next chapter.

II. Economic Nationalism and the Idea of the Indian ‘Nation’

The term ‘economic nationalism’ is frequently used but rarely well defined. In one of the most sophisticated recent treatments, Abdelal (2001:1) defined economic nationalism as “the attempt to link the idea of a nation to specific [economic] goals.”² Nationalism is a “proposal of the content of national identity” (Ibid) that reflects society’s collective interpretations of the meaning of the nation, the path it should follow and the policies that societal actors believe will achieve those goals. Thus the mean-ends relationships between policies and outcomes that the previous chapter advanced as a definition of actors’ preferences are deeply embedded in the essence of nationalism. Further, this framework for understanding the relationship between preferences and nationalism provides significant analytic room for agency and contestation. While the meaning of nationalism is inter-subjectively held, the ‘content’ of every national ‘proposal’ is hotly debated and contested. There are always competing nationalist projects with political battles determining which will prevail.

Finally, nationalisms do not emerge within a vacuum; they arise in interaction with and often in opposition to other nationalisms in the international state system and the global political economy. Nationalisms are relational, and are often imagined to have an ‘other’ both within and outside of the state. It is variation in this ‘content’ as promoted by competing nationalist actors that gives rise to contestation within and between nationalisms i.e. between competing national goals and identities in a given society and

² Economic nationalism has long had an important role in explaining economic policy outcomes. However, disciplinary divides in the social sciences have produced narrow definitions and have hindered our ability to develop richer understandings of this crucially important phenomenon. Political scientists have tended to equate economic nationalism with mercantilism or statism, while economists often see it as synonymous with protectionism. However, outside of interest group analysis both conceptions have fairly shallow linkages to the underlying social forces that produce them. By contrast, anthropologist Benedict Anderson (2006 [1983]) provided a deeply socially embedded theory of nations as ‘imagined communities’, but his elaboration does not directly address the economic policy implications of these nationalist imaginaries. Thus while individually these views may not be inaccurate, they nevertheless seem incomplete. This section aims to provide a more comprehensive approach.

across countries. This variation ultimately produces differences in economic policies and market outcomes. As this chapter will show, the content of Indian nationalism in the late 19th century emerged from contestation between emerging Indian nationalists and colonial authorities. This later evolved into growing internal contestation between different strands of nationalism amongst Indian nationalists in the early 20th century, particularly those associated with the two most important historical figures in Indian politics: Mohandas Gandhi and Jawaharlal Nehru. This contestation served to legitimize and delegitimize different organizational forms of capital: foreign-domestic, large-small and public-private. Agency and contestation are thus central to the nationalist analytic.

Consolidation and Institutionalization of the Indian Colony

Nationalism and the idea of a single nation of 'India' emerged shortly after the consolidation of the South Asian colony under the British Crown in 1858. This development established India as an integral part of the increasingly interconnected economies of Britain's global empire. Up to this point, the colony was comprised of a collection of distinct regions directly governed by the British East India Company alongside a set of quasi-independent 'Princely' states. The latter were remnants of the Mughal empire that were controlled by *zamindars* - local rulers such as the Hindu Maharajas and Muslim Nawabs – who were typically in political and commercial alliances with the Company.

The British Colonial Office took direct control of the South Asian subcontinent following the 1857 Sepoy Mutiny, ending a century of administration by the East India Company. One of the immediate outcomes was the dramatic expansion of the institutional apparatus of the colonial state, including the imposition of a centralized monetary system, internal commercial and land taxes, and external trade tariffs. The installation of the British 'Raj' [reign], as the colonial administration became known, also included the construction of a transportation network and communications infrastructure, as well as a built environment that established the physical presence of the colonial state through imposing buildings and formal urban planning.

The British created multiple levels of administrative units to manage the vast colonial space. These included agencies to map the human and physical geography of the colonial territory through censuses as well as a multitude of reports on finance, industry and social welfare that culminated in the annual *Moral and Material Progress* reports. These reports served ideological as well as administrative purposes. They promoted a benevolent conception of British colonial rule, which was crucial as the assumption of control of India by the Colonial Office and the Crown from the East India Company was posited to be about civilizing the natives and raising them out of poverty and squalor. The reports were thus essential for maintaining the legitimacy of British rule in the colonies as well as at home in the UK.

These colonial-level developments re-ordered the entire array of institutional structures that shaped social and economic life under the East India Company. They created new cultural and legal institutions to govern the internal market, including laws of property and contract, while simultaneously restructuring the nature of colonial South Asia's participation in a global economy dominated by private British merchant capital and the British state. The British placed India in a particular structural and cultural position: India was transformed into a producer and exporter of primary products, mainly cotton, jute, tea and opium, and a captive market for British manufactured goods, especially cotton textiles. This process proceeded rapidly over the latter half of the nineteenth century such that the colony went from absorbing 31% of British cotton goods in 1860 to 85% by the close of the century (Misra, 1999). This transformation had major implications for the prospects industrialization under indigenous capital.

This period also saw the formation of the spatial, institutional and cultural dimensions of the global political economy of the 'first' globalization. This particular institutional form of the global political economy was 'dually' facilitated by 'objective' material gains from technological developments that dramatically increased productivity while lowering transportation and communication costs as well as the 'subjective' cultural norms and laissez faire ideas of classical political economy that rationalized and legitimized the system (cf. Sewell, 1992). While these worked together to expand and deepen the

globalizing world economy and held the imperial project together, it produced uneven development between center and periphery that provided fodder for emergent 'nationalist' resistance in colonial South Asia as in other parts of Asia, Europe, Latin America and Africa. Imperialism and nationalism evolved as inextricably linked cultural and structural processes.

Constructing the Idea of 'India' as a Nation-state

It is somewhat ironic that consolidation of the heterogeneous peoples, societies and polities of South Asia under the British Raj created the unified nationalist reaction that eventually challenged and overthrew it. The institutions and coordinated state structures of the Raj established new linkages between people in disparate geographies and economies of the colonial South Asian territory. This enabled the emergence of nationalist conceptions of a unified nation. Institutional reordering under British colonial authorities not only transformed the formal institutions of the economy, it also fueled the creation of new cognitive and cultural categories of identity and conceptions of economy and geography that were consistent with a 'modern' capitalist nation-state. The new technologies, institutions and governance capacities of the colonial state facilitated the transformation of objective and subjective structures by providing new cultural resources, meanings and practices with which nationalist political actors created novel ideas, identities and movements (Goswami, 1998:614). This restructuring provided the material and cultural context within which nationalist actors formulated anti-imperial theories and strategies of action aimed at transforming the structures of the colonial space. Ideas of economy, territory and culture co-evolved.

As argued earlier, nationalisms are relational and arise in opposition to other nationalist forces in the domestic and global political economy. Indian nationalism was no different. Nascent Indian nationalists identified their 'other' in British imperialists in India and in the Colonial Office in London, and crafted their nationalist critiques and programmatic strategies in opposition to the policies of the Raj. However, though this nationalist consciousness and the particular form it took were direct outcomes of the takeover by the Raj and the broad-based institutional restructuring and consolidation of the Indian colony

it imposed, it nevertheless met with multilayered opposition from the Colonial authorities.

First, the idea of 'India' as a unified nation was immediately challenged by the colonial view of the 'impossibility of India' (Goswami, 1998:622). For example, in 1888 Financial Secretary John Strachey asserted:

This is the first and most essential thing to learn about India – **that there is no, and never was an India**, or even any country of India, possessing, according to European ideas, any sort of unity, physical, social or religious....That men of the Punjab, Bengal, the United Provinces, and Madras, should ever feel they belong to one great nation, is **impossible**.³

This view was quickly countered by Pherozshah Mehta, a Bombay lawyer and one of the founding members of the Indian National Congress (INC), the organization that became synonymous with the nationalist movement and has dominated Indian politics since independence:

Indeed, so far as the historical argument is concerned, we (the INC) have been successful in **turning the tables upon our adversaries**. We have shown that it is they who defy the **lessons of history and modernity** when they talk of waiting to make a beginning till the masses of people are fully equipped with all the virtues and all the qualifications which adorn the citizens of Utopia, in fact till a millennium has set in, when we should hardly require such institutions at all.⁴

M.V. Bhide continued the riposte in an 1895 address to the INC:

I know there are among our critics...who proclaim with an air of superior wisdom that India is but a geographic expression and that **there is no Indian nation as such**, but only a congeries of races and creeds, who have **no cohesion** in them...here in this gathering we have representatives from the most distant provinces, Bengal, Assam, Punjab, North Western Provinces, Rajputana...but the watchword of these congressmen in India, Indians first, Hindus, Muhammadans, Parsees, Christian, Punjabees...afterwards...the aggregate of those that are residents of one territory...urged by like impulses to secure like rights and to be relieved of like burdens.⁵

This cultural construction of the nation is consistent with Anderson's (2006 [1983]) theory of nations as 'imagined communities,' while the discursive contestation reflects

³ [Strachey, 1888: 5-7, cited in Goswami 1998:622]

⁴ [INC Papers Vol. 1, 1890, 109, NAI cited in Goswami, 1998:622]

⁵ [INC Papers Vol 1, 1895, 173, NAI cited in Goswami, 1998:623]

the mechanisms through which new institutional fields are created.⁶ This mode of conflict defined much of the relationship between Indian nationalists and colonial authorities.

Modularity and the Global Rise of Nationalisms

There is a tension between the unique cultural construct of the nation that nationalist actors must create to successfully oppose the imperialist 'other', and the homogenizing forces of the global political economy. Indian nationalists were not alone in their efforts to imagine a unified nation of India. After all, this was the period of the first globalization as well as the time when the Westphalian system of nation-states was coming into being. The global political environment was characterized by nationalist struggles to consolidate territories, peoples and economy in Europe, Asia and Latin America. This was also the moment when 'late-developing' states such as the USA and Germany sought to establish domestic industrial capacity within the wider institutional context of globally dominant British manufacturing and a free trade regime enforced by the combined might of British capital, the British navy and British theories of classical political economy.

These efforts by late developing states provided institutional templates for the colonies that Anderson (2006 [1983]) has referred to as 'modular': providing valuable content for the construction of nationalist proposals. Anderson showed that nationalist imaginations can not be analyzed in isolation; they are part of wider socio-historic dynamics in both their material and cultural dimensions. Nationalisms are products of global economic and technological processes as well as the cultural meanings and practices that accompanied them. Anderson identified the new discourse of nationalism and the mechanisms through which it was transplanted across space and time, allowing nascent conceptions of nationalism to spread through Latin America, Europe and Asia in the mid-late 19th century. India was no exception: the processes occurring within India in late 19th century cannot be divorced from the political developments in other regions of the world. Nevertheless, despite the availability of nationalist ideas in the global environment, the

⁶ This analytic approach can also be used to challenge existing theories of institutional origins from both rational choice, historical institutional and ideational political economy perspectives e.g. Boix, 1999; North and Weingast, 1989; Rosendorf and Milner, 2001; Koremenos et al, 2001; Pierson, 2000; Thelen, 2004, Blyth, 2007. This will be one of the avenues that will be pursued with the material from this chapter post-dissertation.

construction of Indian nationalism required strategic efforts by emergent nationalist actors to reformulate ‘modular’ ideas for the Indian context. This is the very definition of agency -- “the capacity to transpose and extend schemas to new contexts” -- that Sewell (1992:19) argues is required to facilitate structural transformation.

Despite its attractiveness, Goswami (2002:780) suggests that modular diffusion may be conceptually delinked from the material context of new socio-economic relations of late 19th century global capitalist production. While Anderson’s (2006 [1983]) modular nationalism and view of nations as imagined communities provide rich insights, they do so at the cost of privileging ‘subjective’ cultural accounts over ‘objective’ material explanations, raising the tension between culture and materiality that is central to the ‘twin tensions’ in the new institutionalisms identified in Chapter 1. Anderson’s (2006 [1983]) emphasis on the subjective is strategic -- aiming to correct what he perceived as overly positivistic understandings of the nation through a discursive approach that revealed the subjectivity of nationalism – but his modular approach may nevertheless universalize mimetic processes. This risks sacrificing the context-specificity arising from “[material] socio-historical processes and institutional constraints that attend the production and circulation of meaning” (Goswami 2002:780). The material and cultural dimensions of socio-historical processes require equal analytic weight.

While structural-material assumptions underpin the dominant conceptions of economic interests and policy preferences that this dissertation challenges, the framework avoids privileging culture over materiality by recognizing the duality of subjective-cultural and objective-material determinants of preferences in shaping the institutional foundations of nationalism in late colonial India. Sewell’s (1992) theory of duality facilitates a conception of structure as simultaneously material and cultural. It also stresses the importance of agency in understanding how Indian actors both interpreted nationalist ideas that they were exposed to in their reading or travels to Europe and East Asia through their own socio-historical lens, and reformulated these models to the Indian political-economic context. This agency-oriented approach to nationalism not only challenges Anderson’s modularity, but also the world polity approach of Meyer et al

(1997). The world polity argument suggests that ideas diffuse via mimetic processes through elite networks and are adopted wholesale. The Indian case provides a direct challenge to this view. The following sections of this chapter build on this argument by showing how this duality of material and cultural factors mutually shaped the preferences of nationalist actors and the emerging field of industrial development. Both economic theory and science and technology were key components of the content of emerging Indian nationalism, as nationalist actors propagated the idea that India had long traditions in science and manufacturing that predated Europe as well as an economic critique of British de-industrialization and exploitation of India.

III. Constructing Modernity:

Colonial Science and Economics tame Mother Nature and the Indian Market

The arenas of debate in late colonial India were structured by British imperial power, with the discipline of economics providing the legitimating mode of discourse for emerging Indian nationalist demands. Understandings of economic theory, science and technology combined to provide the interpretive lenses through which competing conceptions of modernity and development were perceived and articulated. These interpretive frames had major implications for industrial policy and patterns of industrial development amongst different organizational forms of capital, in particular foreign and domestic firms. Competing economic theories provided rationalized causal ideas that served as “technologies of control” (Hall, 2005:135); these theories were “weapons” wielded by dueling actors that ultimately shaped regulatory and market outcomes (Blyth, 2001).⁷ On one hand, economics was seen as a dispassionate ‘science’ in late colonial India, but actors on each side of the debate heavily infused these theories with what new institutionalists in economics and political science term “normative elements” (North, 2005; Blyth, 2001).⁸ These ‘normative elements’ reflect socially and historically

⁷ Blyth (2001:4) advanced “the notion of [economic] ideas as weapons in distributional struggles” by showing how “the development and deployment of economic ideas is a prerequisite of fundamental institutional change” and demonstrated this through his comparative analysis of policy debates during the 1930s Great Depression and 1970s Oil Crisis in Sweden and the US. These are precisely the dynamics that ensued in India, as this section will show.

⁸ This was clear in both colonial documents, as in the *Moral and Material Progress Reports*, as well as in nationalist critiques. Indeed, North (2005:2) suggests that “The ‘reality [of a political-economic system is

embedded cultural symbols, meanings, narratives and tropes. These cultural elements are deeply embedded in the rationalized causal ideas that structure the institutional environment, imbuing ideas with salient social meanings that motivate action. However, while recognized by a few new institutional economists and political scientists, they remain deeply undertheorized. They deserve much greater analytic attention than accorded in the new institutional literature.

British theories of classical political economy and developments in science and technology had crucial implications for the emergence of the field of industrial development in late colonial India. Two factors were crucial during this time: the growing acceptance of causal ideas of science and technology as a means of harnessing the forces of Mother Nature for industrial production, and of economics as a means of controlling the forces of supply and demand that constituted the 'free' market. Together these rationalized causal ideas comprised powerful cognitive schemas that were channeled towards the regulation of exchange of industrial output and the realization of post-Enlightenment conceptions of intellectual progress, material prosperity and modernity and that constituted 'development'.⁹ However, 'development' was not an objective concept, it was imbued with salient social meaning reflecting British economic, political and cultural superiority. The cognitive dimension of scientific and economic ideas was thus imbued with salient social and cultural meaning.

never known to anyone, but humans do construct elaborate beliefs about the nature of that 'reality' – beliefs that are both a positive model of the way the system works and a normative model of how it should work." Blyth (2001:4) also noted the duality of normative and scientific discursive tools, arguing that "In deploying economic ideas as weapons, agents can restructure existing institutional arrangements by defining not only the causes of a perceived economic problem but also the solutions for dealing with it. By offering both a scientific and normative critique of existing institutions, economic ideas allow agents to challenge existing institutional arrangements and the patterns of distribution they enshrine." This belief system may be highly contested or widely held. North (2005:2) adds that "The dominant beliefs – those of the political and economic entrepreneurs in a position to make policies – over time result in the accretion of an elaborate structure of institutions that determine economic and political performance" (Ibid) and distributive outcomes. "The resulting institutional matrix imposes severe constraints on the choice set of entrepreneurs when they seek to innovate or modify institutions in order to improve their economic or political positions" (Ibid). We will see the effects of the complex institutional matrix that the British created in India, and the implications for the struggles of rising Indian nationalists.

⁹ The Enlightenment provided the cultural and intellectual framework for the application of scientific knowledge to generate material benefits and the creation of the positivist 'scientific' disciplines of socio-economic analysis to organize, rationalize and control the social environment.

Science and economics were thus established as rationalized and socially meaningful means of achieving wealth and power. However, these 'modern' -- often viewed as synonymous with Western -- ideas existed in a complex relationship with the emergent Indian nationalism of the late 19th century. On one hand, European ideas of science and economics -- the latter reflecting a particular *laissez faire*, free trade, limited government brand of economics from Adam Smith and David Ricardo -- were seen as imposed by British colonizers, first through the East India Company and later through the Raj. At the same time, rationalized causal ideas of science and economics provided the tools of resistance against Imperial intellectual, cultural and material subjugation and exploitation. This underpins the tight relationship between science, economics and nationalism in the construction of cognitive and cultural schemas. Indian nationalists displayed significant agency in reinterpreting and mobilizing these cognitive and cultural schemas as powerful resources in the anti-imperial struggle. Much like culture is underplayed by new institutional economists and political scientists, agency is underplayed by many sociologists that otherwise highlight the importance of social meaning. As Sewell (1992:19) argues, "Not only can a given array of resources be claimed by different actors embedded in different structural complexes (or differentially claimed by the same actor embedded in different structural complexes), but schemas can be borrowed or appropriated from one structural complex and applied to another." Ideas of science and economics constituted valuable cognitive and cultural schemas that Indian nationalists appropriated as powerful resources in their struggle.¹⁰ Their knowledge of these schemas provided the capacity to transpose them, the very definition of agency that Sewell (1992) provides.

In India, the socially constructed technological imaginaries and theoretical representations of the economy developed hand in hand. By the late 19th century the symbolic and material power of colonial science and technology was clear: railroads that conquered the vast distance of the subcontinent and 'tamed the colonial territory', and bridges stretched across the mighty and mystical Ganges. Technological advances such as

¹⁰ Sewell (1991:19) continues, "Not only do workers and factory owners struggle for control of the factor, but Marx appropriates political economy for the advancement of socialism," providing a nice parallel with Indian nationalist appropriation of colonial science and economics.

the steam driven power loom in the cotton textile industry also served to harness nature towards industrial production, rationalizing and legitimizing economic ideas of Ricardian comparative advantage that predicted Indian handloom weavers would be unable to compete against the power looms of the more 'efficient' Lancashire cotton mills. This reflected emerging conceptions of competitiveness and 'efficiency', itself a crucial social construct of modern capitalism that serves to mask relations of power and control (cf. Fligstein, 1990; Dobbin, 1994; Roy, 1997; Hall, 2005).¹¹ Crucially these causal ideas were used to rationalize and legitimized imperial regulatory institutions such as 'free trade' that then reinforced these predictions.

Artifacts of technological progress such as the railroad, telegraph and power loom not only shaped conceptions of technological possibilities, they reinforced a 'modern' market consciousness. Mid-century railway construction took off with direct colonial rule, and further expansion in the 1880s provided greater physical reach for traders and producers while expanding the conception of 'the market' as a quasi-abstract space filled with possibilities. Of course, this is not to suggest that actors had no notion of markets before the railroads, but rather that the way 'the market' was conceptualized shifted dramatically with the new possibilities that technological advances such as the railroad provided. This was supported by the introduction of the telegraph, another major European technological innovation of the time that greatly enhanced the circulation of commercial information amongst colonial officials, British merchant firms and indigenous traders, complementing the increased circulation of physical goods that the railroads provided.

Technological innovations introduced to the colony thus served to reconstitute 'the market' as a "newly imagined abstraction generated through a greater rationalizing of the material world and speed of exchange" by expanding commercialization and monetizing exchange (Birla, 1999:150). Ludden (1992:258) argues that the growth of transactions demarcated in the newly standardized rupee "and the scope of commercial exchange pushed only in one direction: it steadily increased the capacity of bureaucrats, policy-

¹¹ Chandler (1977) provides the classic opposing view of efficiency as a natural outcome of the historical advance of technology and human knowledge.

makers, politicians, reformers and experts to capture and manipulate the central cognitive invention of capitalism, 'the economy'. An Indian national economy thus emerged in the nineteenth century as a bounded and coherent entity within a global capitalist system dominated by the British Empire." This conception of the free market reflected "a model of Nature itself as a system of balance and order," that fit perfectly with rising 'rational' scientific knowledge of the mystical forces of Mother Nature, expressed as natural flows of supply and demand (Birla, 1999:150).¹²

The purportedly scientific discipline of economics was synonymous with the dominant liberal economic theories of Smith and Ricardo that were heavily promoted by the imperial state. It offered powerful intellectual tools underpinned by modern capitalist cultural practices of freedom of contract, security of property rights and private incorporation that the British imposed through formal legal institutions such as the Indian Contract Act of 1872 and the Indian Companies Act of 1882.¹³ This formal and informal institutional architecture simultaneously naturalized and harnessed the power of the free market, much as Kipling's engineers had harnessed the power of the Ganges by placing 'Mother Gunga in chains' (Prakash, 1999).¹⁴ All these were made possible by the developments in transportation and communication technologies and theories of economy and market exchange that colonial knowledge provided.

The British deployed their favored causal ideas of science and economics as tools to reconfigure the Indian landscape and economy by imposing a mutually reinforcing physical, legal and intellectual infrastructure. This served the dual imperial goals of

¹² In addition to Ludden's (1992) *India's Development Regime*, Birla also cites Prakash's *Another Reason*, Manu Goswami's *Producing India* and C.A. Bayly's *Colonial Rule and the Informational Order in South Asia*.

¹³ The legal fictions that were created by these pieces of legislation establishing the nationality of a corporation and the ownership and contractual relationships between foreign and domestic corporate entities are central for the dissertation and play a crucial role in the analysis in later chapters.

¹⁴ Prakash cites Kipling's short story 'The Bridge Builders' – science as a means of establishing control over nature and "domination over people who see nature in mythical terms" In the story the "heroic" British engineers successfully build a railway bridge over the Ganges "against all odds", allowing Kipling to represent the meaning of the feat as "'Mother Gunga - in irons,' symbolizing the triumph of British engineers over Indians and their culture." (Prakash 1999:5,168) It is worth noting that the imaginaries attached to foreign technology persisted, shaping the post-Independence Nehruvian period and more recently current debates about the role of foreign technology in the liberalization of FDI policy.

political control and profit maximization, which was achieved primarily through British managing agencies, albeit with Indian merchant-traders acting as important middlemen. However, the tools of colonial modernity came at a price: the freedom of thought embedded in post-Enlightenment scientific knowledge provided Western-educated Indian elites with tools to formulate multipronged critiques of imperialism.

Herein lay the paradox of colonialism. Science and economics were powerful tools of imperialism that were nevertheless vulnerable to co-optation. But the emerging cultural category of 'nationalist' did not automatically produce coherent behavioral scripts that actors unreflectively followed as some constructivist arguments that minimize agency and contestation might suggest;¹⁵ newly emerging nationalist actors displayed significant agency in developing critiques of British imperialism and creating the foundations for a new Indian nationalism. Indian elites faced the dilemma of "trafficking between the alien and the indigenous, forcing negotiations between modernity and tradition, and rearranging power relations between the colonizer and the colonized" (Prakash, 1999:6).¹⁶ This is precisely what the Western-educated indigenous elite attempted as they sought to appropriate the cultural and intellectual resources of their colonial rulers. "Enchanted by science, they saw reason as a syntax for reform, a map for the rearrangement of culture, a vision for producing Indians as a people with scientific traditions of their own" (Prakash, 1999:6). These actors' attempts to reconfigure the binaries of colonizer-colonized and science-superstition were key to indigenizing science and establishing Western-educated elites who were employed in the colonial administration and modern professions at the junction between 'modern' Western science

¹⁵ Wedeen (2002) provides an excellent critique of that ways in which the concept of cultural schemas have been imported into political science as reified, coherent and consensual rather than ambiguous and contested, as this chapter has argued. This critique is further discussed in the next chapter in the context of cultural theories in rational choice institutionalism.

¹⁶ The irony of the emergence of nationalist elites as 'traffickers' between West and East is made all the more stark by Macaulay's (in)famous *Minute on Western Education* (1835) revealing early British attempts to create an indigenous elite: "In one point I fully agree with the gentlemen to whose general views I am opposed. I feel with them that it is impossible for us, with our limited means, to attempt to educate the body of the people. **We must at present do our best to form a class who may be interpreters between us and the millions whom we govern, -- a class of persons Indian in blood and colour, but English in tastes, in opinions, in morals and in intellect.** To that class we may leave it to refine the vernacular dialects of the country, to enrich those dialects with terms of science borrowed from the Western nomenclature, and to render them by degrees fit vehicles for conveying knowledge to the great mass of the population."

http://www.columbia.edu/itc/mea/00generallinks/macaulay/txt_minute_education_1835.html

and ‘traditional’ Indian knowledge, allowing them to ‘embody and reformulate culture’ “in their reach for hegemony” (Prakash, 1999:8). They epitomize Sewell’s (1992:19) definition of agents who have “the capacity to transpose and extend [cultural] schemas to new contexts.” Finally, by virtue of their own western education, nationalist actors were themselves trafficking between the alien and indigenous. The Indian elite thus embodied the modernization project. These late 19th century critiques that are discussed in greater detail below resulted in the formulation of hybrid conceptions of modernity, and set the stage for the intensified development debates of the post-World War I period that are the subject of the next chapter.

IV. Indigenizing the Rationalized Causal Ideas of Imperial Economic Theory:

The Theory of ‘Economic Drain’

The enactment of liberal economic policies of the late 19th century Raj was preceded by a range of conceptions of the economy imposed by the East India Company, from late eighteenth century physiocratic models of value derived from agricultural development and land,¹⁷ to bazaar [market] regulation based on Smith’s theories of exchange, to the promotion of “free trade ideology” and “the theoretical fiction of the equilibrium of supply and demand.” These interpretive frames were deployed by the Company to wrest control of economic activity from the *zamindars* – the aristocratic landlords of the Mughal Era -- and legitimize regulation of production and exchange around the turn of the 19th century (Birla, 1999:22).

The Smith-Ricardo vision of classic British political economy came under attack by an increasingly vocal segment of the educated Indian middle class from as early as the mid 19th century.¹⁸ Emerging nationalists like Dadabhai Naoroji (1825-1917), a noted professor, cotton merchant and founding member and second president of the Indian National Congress, led the charge in arguing that the ‘so-called natural laws of economy’ were not operative in South Asia. Justice Mahadev Govind Ranade (1842-1901), a

¹⁷ Birla (1999) also cites Ranajit Guha’s *A Rule of Property for Bengal: An Essay on the Idea of the Permanent Settlement*. Durham: Duke University Press, 1996.

¹⁸ Indigenous scientific critiques played a larger role in preference formation and policy debates during the inter-war period, as discussed in the next chapter.

magistrate in the Bombay High Court and founding member of the Indian National Congress, concurred. Ranade did not deny the validity of economics, but rather argued that it should be inductive – closely linked to historical experience - rather than deduced from abstract theory. He criticized English economists' view of free trade as being constricted 'solely from the economical point of view' without consideration of 'the political and social elements which enter into the question (* cited in Chandra, 1966:711). Ranade placed the critique firmly within the structural realities facing the Indian colony while addressing dominant Ricardian theories of static comparative advantage:

'The orthodox economists assign to the backward and torrid regions of Asia the duty of producing raw materials and claim, for the advanced European temperate zone countries, the work of transport and manufactures, as a division of labor in production, which is fraught with the highest advantage to all and is, we are told, a providential dispensation against which it would be foolish to rebel.'¹⁹

These emerging nationalists bolstered their arguments with case examples from elsewhere in the world, much as suggested by Anderson's (2006 [1983]) modular nationalism but with the agency of Sewell's (1992) transposition of schemas. Ganapathy Subramania Iyer, founder of the major newspaper *The Hindu* pointed to protectionist policies of Germany and the USA in critiquing English pushing free trade. He used the example of these successful late developers to argue that economic policies should be determined by national need not economic theory (* Chandra, 1966:713).²⁰ Like Ranade, he held that 'the truths of economic science are not universally applicable, irrespective of the particular stages of national growth and of peculiar environments and conditions.' (* Chandra, 1966:713-4) He further insisted that 'The given conditions of society and the prevailing conceptions regarding its future and contemporary interest, determined the economic ideas that received the approbation of thinkers and the acceptance of statesmen.' 'It was therefore clear to him that the principles of orthodox economics had to be modified when applied to India since 'the economic interests of India and the conditions under which they have to be safeguarded' were different from those of Europe

¹⁹ (* Cited in Goswami, 1998:615)

²⁰ This is consistent with Anderson's concept of 'modular nationalism'. These arguments also draw on Friedrich List. More broadly, it shows the extent to which developments in the emerging 'institutional field' of Indian industrial development interacts with other fields, reflecting the utility of the institutional field analytic for theorizing institutional origins.

and America” (* Chandra, 1966:714). Nationalist newspapers such as *The Mahratta* similarly called for ‘the application of a different set of principles’, declaring that ‘India is not to be sold for the fads of economic doctrinaires’. These actors called on the GOI to ‘proclaim once for all that it is not going to borrow its economics from England’ and pleaded for ‘the formation of a national economics’ (* Chandra, 1966:715).

The Theory of Economic Drain

These gripes and agitations began to coalesce into an articulate critique of free market operations as the systematic exploitation of Indian wealth that captured both internal conditions of poverty and the subordinated structural position of the Indian colony in the global economic order. The crucial theoretical innovation was the development of the comprehensive ‘economic drain’ thesis, based on an innovative indigenously developed rationalized causal idea that problematized the extractive economic relationship between Britain and India. The idea of the drain dates back to the mid-1800s, but began to be clearly formulated by Dadabhai Naoroji, in his landmark *Poverty and Un-British Rule in India* first presented in 1871. Building on the nationalist critique of classical political economy, Naoroji argued that colonial policies of free trade drained India of its wealth, such that “India exemplified the ‘pitiless perversion of [the so-called natural] economic laws by the bleeding to which it was subjected’ ” (* Goswami, 1998:615).

Naoroji’s writing strategically inverted the Colonial government’s claims of progress made in its flagship *Moral and Material Progress* reports by generating national per capita income estimates that highlighted the depth and scope of impoverishment of people in the newly bounded national territory and economy (Goswami 2005:212). Naoroji pointed to the grave poverty that plagued the territory, characterized by the rise in rural indebtedness and the explosion of famines. There was ample empirical evidence to bring to bear in support of the drain thesis. Fifteen million Indian colonial subjects died between the time the Crown assumed control of the colony from the East India Company in 1857 and the publication of Naoroji’s work in 1871. This severely undermined Colonial Office claims that the colony was taken over from the East India Company to better the lives of the Indian people. The drain thesis further argued that the British

extracted millions of pounds annually from the colony through debt on infrastructure projects, manufacturing goods purchases through trade with Britain, remitted official salaries and military costs, all of which comprised the perniciously termed 'home charges'. This was facilitated by the massive institutional, physical and technological infrastructure that the Raj created post-1857.

English capitalists do not merely lend, but **with their capital they themselves invade the country**. The produce of the capital is mostly eaten up by their own countrymen, and, after that, **they carry away the rest in the shape of profits and dividends. The people of India do not derive the same benefit...**The guaranteed railways not only ate up everything in this manner, but **compelled India to make up the guaranteed interest also from her produce**. (Naoroji 1871[1962] 2001-2 cited in Goswami 1998:621)

The global context was crucial for understanding the nationalist drain thesis: while the UK ran large trade deficits with its major trading partners in the latter quarter of the 19th century -- 45m pounds-sterling with Europe and 50m pounds-sterling the United States -- it maintained a 60m pounds-sterling *surplus* with colonial India (Goswami, 1998:620). The Indian colony not only was a crucial market for private British manufacturing firms, it was also essential for the health of the fiscal balances of the British Exchequer. Thus nationalist actors' interpretation of the international division of labour and unequal development all were used to challenge "axiomatic presuppositions of classical political economy" and the economic policies of the British in India (* Goswami 2005:212). Thus material and cultural factors interact in the formation of nationalist preferences towards the economic policies of the Raj.

Naoroji was not alone in his castigation of the British. He was joined by other nationalist leaders such as Justice Govind Ranade and Bholonath Chandra who elaborated the implications of the drain for India's industrial development in separate 1872 and 1873 lectures. Govind Ranade asserted that "[Indian had been converted to a] plantation, growing raw produce to be shipped by British Agents on British ships, to be worked into Fabrics by British skill and capital, and to be re-exported to the Dependency by British merchants to their corresponding British firms" (* Goswami, 1998:615). G.V. Joshi spoke directly to this relationship between the drain and the need to foster domestic industrial development, arguing that 'No nation can stand such a drain and yet hold its

own in the industrial field.’ The drain was posited to be related both to British removing capital from India, as well as crushing domestic industry by ‘depriv[ing] them of their life-blood’ (* Chandra, 1966:664), demonstrating the crucial link that nationalists made between the drain and industrial development.

These nationalist actors found justification for their claims in data on economic relations between Britain and its colony. For example, after 1870 profit remittances from India exceeded fresh investments from Britain, making the latter a net *importer* of capital from India through the last quarter of the 19th century. This had important effects in shaping emerging nationalist perspectives towards foreign capital. Naoroji argued that, perversely, since poverty-stricken and underdeveloped India was a net exporter of capital, the country was “in the unenviable position of being exploited by its own capital” (* Chandra, 1966:102). Naoroji elaborated this lament in 1887, noting that ‘First of all, British India’s own wealth is carried away out of it...and then that wealth is brought back in the shape of loans, and for these loans British India must find so much more for interest; the whole thing moving in a most vicious and provoking circle’ (* Chandra, 103).

The ‘drain’ thesis not only became dominant in India, it also gained prominence in European discourse on colonialism. Indian drain theorists drew intellectual support from across the ideological spectrum, from Adam Smith’s reference to the British under the East India Company as the ‘plunderers of India’ in *The Wealth of Nations* to Karl Marx’s argument that British civil servant pensions ‘add to the annual drain on India’ in an 1857 *New York Daily Tribune* editorial. Marx later added that:

‘What the English take from them annually in the form of rents, dividends for railways useless to the Hindus, pensions for military and civil servicemen...without any equivalent return and quite apart from what they appropriate to themselves annually within India – speaking only of the value of commodities the Indians have gratuitously and annually send over to England – [it] amount[s] to more than the total sum of income of the 60 millions of agricultural and industrial labourers of India. **This is a bleeding process with a vengeance!**’²¹

²¹ Personal correspondence (1881), cited in Chandra (1966:669); also referenced by Goswami (1998:621).

While drain theory resonated with intellectuals in Europe, colonial officials viewed it with significant irritation and concern, if not alarm. They saw the drain thesis as dangerous and responded in no uncertain terms in official documents as well as private correspondence.

...that lessons drawn from the history of the West are **misapplied to the present circumstances of India**; the broad generalizations of European writers on political science are stated without mention of their important reservations; and natives, left without proper guidance, are led to believe that what is appropriate in the case of Switzerland and Italy must necessarily be good for India. **In the region of economics, the most mischievous doctrine is that which is based on the theory that India is drained of her wealth by her connexion with Great Britain. This belief is honestly held by growing numbers...**The Governor General in Council believes that the prevalence of this idea has done incalculable mischief, and **it behooves every officer of Government, and in particular those connected with education, to study the arguments put forward in support of it and to seize upon every opportunity of exposing their fallacy.**²²

The bolded sections of the quote above speak to the importance of the competing rationalized causal ideas of economic theory in shaping the institutional environment, and the seriousness with which British colonial authorities took challenges to the dominant imperial system of thought. It highlights the underlying conflict and contestation between Indian nationalists and colonial authorities over the legitimacy of British imperial rule, and would shape the formation of preferences towards the relative roles that indigenous and foreign capital should play in India's industrialization.

The Drain thesis, Foreign Capital and Indian Industrial development

Nationalist actors not only developed coherent arguments that the British drained India's resources, but also that British colonial free trade policy destroyed India's centuries-old indigenous handicraft industry. In fact, these ideas were causally linked. G.V. Joshi argued that by destroying the urban handicrafts industry, the British created a huge class of unemployed from the class of skilled artisans, such that "foreign capital could penetrate the country and set up manufacturing enterprises where were near 'completing the ruin of our manufacturing industries even in the remotest part of the country'" (* Chandra, 1966:154). Unemployed skilled labor was thus turned from manufacturing to the British imperial goal of expanding primary commodity production and converting

²² Home Proceedings, March 1908, p44 (cited in Goswami 1998:621, emphasis added).

India into raw materials producer and valuable captive market for British finished goods. The rationalized causal idea of drain theory allowed Naoroji and his contemporaries to conclude that ending the drain of wealth would require the participation of native capitalists for industrial development they were to fulfill their nationalist ambitions:

If civilization is to mark us for her own, we must have an Indian commerce to be carried on with **indigenous capital, managed by native talent and, if possible, carried in steamers owned by Indians**, flying the British flag. It may be a dream, nay, even a day dream, but nothing less than this will advance the Indians as a nation.²³

However, a conundrum was that even though British investment in industry was low, it nevertheless dominated the emerging industrial landscape. Indian indigenous manufacturing was in its infancy. All the major areas of industrial activity including jute, sugar, paper mills, as well as leather factories, iron foundries, etc. were controlled by the British managing agencies. Even though much of the *share capital* was Indian, the legal institutions that facilitated the managing agency mode of corporate governance ensured that British retained *managerial control* of these entities (Misra, 1999). India was indeed “in the “unenviable position of being exploited by its own capital” as Naoroji had lamented (* Chandra, 1966:102). This interpretation of the role of institutions and regulation on corporate governance underpins contemporary angst about family-controlled pyramidal business groups that persists in India and has been captured in the finance literature on business groups and ‘tunneling’ (cf. Bertrand et al, 2002; Khanna and Yafeh, 2007).

The cotton textile industry that was emerging in the 1860s-70s, concurrent with Indian nationalism, was the only place where Indians had large ownership share from the outset “But even here, a part of the capital was foreign, the management was mostly foreign, and the technical cadre had perforce to be for the most part imported” (* Chandra, 1966:93). Nevertheless, cotton textiles would become the principal site of nationalist agitation around indigenous industrialization.

²³ (* Chandra, 1966).

Nationalist interest in promoting nascent indigenous capital drove nationalist actors to complement the ‘negative’ drain theory critique with a ‘positive’ set of socially meaningful ideas that focused on steps to be taken towards industrial development and indigenous control of the economy. Though nationalist actors sought to develop alternative theories of the Indian economy that were attentive to historical particularities, they remained influenced by developments outside of the South Asian subcontinent as Anderson’s (2006 [1983]) modular nationalism suggests. Friedrich List’s 1841 *The National System of Political Economy* was of particular value in informing the ideas of M.G. Ranade, G.V. Gokhale and G.V. Joshi.²⁴ List’s work was motivated by the challenge of British domination of the global political economy and his own vision of a unified German nation. It “constituted the positive content of the economic critique of colonialism and the normative basis for institutional nationalism” that became associated with the Indian National Congress (Goswami 2005:211).²⁵

Listian solutions were aimed at aspiring nation-states with their own imperial ambitions, such as Germany and the United States, that were “suffering under the dual yoke of classical political economy and Britain’s global hegemony”. List’s theoretical framework overlaid spatial boundaries on economic activity in ways that classical economics with its laissez-faire commitments and focus on the individual as the unit of analysis obscured.²⁶ His dynamic theory of nationalist economic development rejected free trade and proposed high tariff barriers behind which infant industries could grow and eventually challenge British industries, much as Alexander Hamilton had proposed protectionism

²⁴ Again, the importance of Listian ideas speaks to relevance of Anderson’s modularity analytic as well as the importance of ‘print capitalism’ (the spread of ideas through the newly commercialized printing presses) in the development and diffusion of nationalist thought. However, as has been stressed in this chapter, Indian economic nationalists demonstrated significant agency in reformulating external ideas to fit their own social context and political needs. This agency-centered view goes beyond the view that Anderson (2006 [1983]) and the world society literature (Meyer et al, 1997) promotes.

²⁵ Once again we see the importance of normative and positive critiques, as first outlined in Section III (cf. Blyth, 2001; North, 2005).

²⁶ List distinguished the actors in his nationalist theory from economic actors in Smith’s liberal theory as ‘merely producers and consumers’ and ‘decadent and selfish’, with no concern for future generations; atomistic, lacking collective goals. In the Listian world, shared national identities increase societies’ willingness to bear economic costs in pursuit of nationalist goals; it engenders sacrifice & lengthens time horizons. This was explicitly formulated by nationalist leaders of the South Korean and Japanese developmental states during their rapid development phases in the 20th century (cf. Jasanoff and Kim, 2007; 2009).

and industrialization as a solution for the United States to deal with late 18th century British economic hegemony. Both Hamilton and List saw manufacturing industry as the basis of national power, a view that the emerging Indian nationalists also shared. These neo-mercantilist strategies were enacted by a variety of emerging nation-states including the US, Germany, Italy, Russia and Meiji Japan (Abdelal, 2001) and provided the inspiration for emerging nationalist struggles in colonized territories such as India.

Indian nationalists did more than extend List's categories to account for colonized countries. They demonstrated significant agency in reworking the problem with direct reference to colonial unevenness in the Indian context (Goswami 2005:216). As this chapter has stressed, Western ideas were not unconsciously imitated and adopted through mechanisms of diffusion as the "world society" literature sparked by Meyer et al (1997) suggests (Go, 2012). Nationalist actors displayed significant agency in reformulating Western ideas and deploying them as tools in contestation with imperial forces. Their knowledge of imperial as well as successful late developing economies served as resources that allowed them to creatively reformulate available schemas to develop new theories of the Indian economy. This is similar to the creativity that lies at the heart of pragmatist theories of political economy (cf. Sabel, 2006; Herrigel, 2008, 2010; Herrigel and Zeitlin, 2010; Whitford, 2005; 2011) but is bolstered by an emphasis on the importance of power that these actors' derived from their education and elite social standing, even as colonial subjects. List's theory was a valuable resource that nationalist actors adapted to Indian particularities and deployed to achieve their political and economic ambitions. It provided valuable content for Indian nationalist agitations and industrial policy recommendations. There is no better place to examine the salience of these issues and the emerging conflict between nationalist actors and colonial authorities than in the context of trade tariffs and the emerging Indian cotton textile industry. It provides an apt depiction of how colonial policies provoked nationalist reactions, and the effects on a foundational industry dominated by Indian capitalists.

V. The Politics of Free Trade and the Swadeshi Response

Cotton-textiles is widely acknowledged as a foundational industry in the history of modern capitalism. It has been central for establishing production infrastructure, manufacturing experience and technical expertise, especially by indigenous economic actors in late developing countries (Amsden, 2001). This was the case with the Industrial Revolution in late 18th century England as well as the late developing states of Germany, the United States and Japan as they transitioned to industrial capitalism a century later. The cotton-textile industry played a similarly important role in the political economy of industrialization India, all the more so because it was the only major industry in the late 19th century that was primarily owned *and* controlled by nascent Indian capitalists. Further, textiles were a core consumer good, even for the poorest rural villager, thus everyone in India had a stake in the industry as producer, trader or consumer. This placed the industry -- and the actors within it -- at the very center of the debate over trade and industrial policy. Crucially for this dissertation it provided the first major area of conflict and contestation over the relative roles of foreign and domestic capital in India.

Early indigenous industry in India was concentrated around cotton, with the growth of commercial agriculture, primarily cotton but also sugar and tea, supporting the beginnings of large-scale textile industry.²⁷ Two external factors contributed heavily to the early development of the industry: the 1860s cotton boom stemming from production disruptions due to the American Civil War and the opening of the Suez Canal. The combination of high global prices from unmet demand with significantly reduced transportation costs created the opportunity for developing new areas of cotton production. These were complemented by post-1857 British commercial policies that revealed the potential of the Indian market.²⁸ Thus India simultaneously developed raw cotton production capabilities as well as a vibrant domestic market for textiles.

²⁷ Jute however was the most important industry, particularly as India had a global monopoly, but it was almost completely dominated by British capital and located in Calcutta, the seat of British colonial power. Indian industrialists were unable to establish themselves in jute until well into the 20th century.

²⁸ Aspiring Indian capitalists benefitted from the fact that British Imperial powers initially perceived little competitive threat to England's textile production center, Lancashire.

Material and cultural elements combined to facilitate the emergence of the nascent cotton-textile industry. Material opportunities for new sources of profit complemented by the inflow of market and technical knowledge as well as capitalist worldviews that served to reorient some Indian economic actors from commerce and speculation to fixed long-term investment in manufacturing industry.²⁹ The beginnings of an Indian-owned industry could be seen in Bombay and Ahmedabad in the West from around 1850, spreading to Cawnpore in the North and Coimbatore in the South of India by the 1870s. This resulted in a rapid increase in trade, which was dominated by European trading houses but also included growing participation by Indian merchants. In fact, most nascent Indian industrialists emerged from merchant-trading communities such as the Parsis, Gujaratis and Marwaris rather than skilled artisanal or professional backgrounds.³⁰

Tariff Wars

Colonial tariff policies not only played a major role in shaping the structure of the cotton-textile industry but crucially the *content and meaning* of Indian economic nationalism (Abdelal, 2001). The return of the colony to Crown rule saw the imposition of 10% import tariffs on all manufactured goods, which combined with the factors noted above helped the nascent Indian industry get off its feet. However, these were imposed for revenue purposes to address the fiscal effects of the Sepoy Mutiny of 1857, rather than as infant industry protection. Regardless, strong reactions from British textile producers and traders led to a tariff reduction on cotton goods in 1861/2 to 5% and then to 3.5%. Despite these relatively low tariff levels -- especially relative to other manufactured goods -- British textile interests represented by bodies such as the Manchester Chamber

²⁹ The material and cultural dimensions of this transition are analyzed at greater length in the next chapter, where the imperial and nationalist schemas presented in this chapter and employed to problematize the emergence of Indian capitalists.

³⁰ Much of this was due to the Indian merchant-traders access to capital and markets through their commercial networks and relationships with British merchant firms in India and the UK. It was also facilitated by these actors' travels and studies abroad. For example, the Parsi merchant-trader Jamsetji Tata, founder of the Tata business group, learned about cotton-textile production while studying in England in the mid-18th century and launched one of the first cotton mills upon returning to India. Kohli (2004) notes that Parsis were able to take advantage of their market knowledge as they were already textile traders, while Marwaris had extensive knowledge and understanding of India's internal markets. Gujarati merchant-traders had also participated in trade with the Middle East for centuries. The emergence and constitution of the Indian capitalists class, and crucially variation in perceptions of indigenous economic actors from different merchant-trading communities, will be explored in greater detail in the next chapter.

of Commerce continued to agitate against these duties, arguing that tariffs did a disservice to *both* Manchester and India. In 1874 the Manchester Chamber held that tariffs were:

1. Opposed to principle of Free Trade;
2. Harmed British producers by restricting exports; and
3. Were against Indian [consumer] interests because make goods more expensive.³¹

British capitalists were not alone in professing their belief in liberal economics. Kidron (1965:12) argues that by this time, “*laissez-faire* had been elevated into the ‘secular religion of the British middle class’” that comprised the bureaucracy staffing the Colonial Office in London and the manning government posts in India. This is aptly demonstrated in colonial recruitment policies and practice, even at the most senior levels, as Lord Hardinge (Viceroy of India, 1910-16) recalls:

Lord Morley [Secretary of State for India, 1905-10; 1911] came up to us, and taking me aside asked if I would like to succeed Lord Minto as Viceroy of India...What struck me as curious at the time was that **the only question he put to me was whether I was a free trader**, and I was honestly able to say that I was then and always had been a free-trader. He told me that **I might regard the matter as settled**.³²

The persistence with which free trade arguments were pursued ultimately proved successful as in 1876 the Viceroy of India Lord Salisbury eliminated tariffs not only on cotton textiles but on almost all British imports, while claiming this was in the best interest of India. Unsurprisingly, this coincided with the period when nationalist positions around the drain were beginning to coalesce.

The tariff holiday persisted for almost twenty years despite increasingly bitter battles with nationalist actors. Once again, however, revenue needs rather than demands for trade protection and support for indigenous industrialization led to the Tariff Act of 1894 and

³¹ This move by the Manchester Chamber of Commerce reflects the strategy that Marx identified where powerful actors present what they want as not only being good for them, but in the best interests of all (cf. Dobbin, 2004).

³² Kidron (1965:12). The depth of colonial actors *laissez faire* beliefs became one of the legendary aspects of the British Empire. “It [free trade] was an exacting religion: if a grain ship bound for Calcutta foundered off the coast of famine-stricken Orissa, the natural laws of political economy, reinforced by instructions from the Lieutenant Governor, decreed that it continue on its way. If natural decay rendered it useless before transshipment could be effected, so be it. ‘By the time relief came’, wrote Phillip Woodruff in his celebrated work *The Men Who Ruled India*, ‘a quarter of the population were dead’” (Ibid).

the imposition of a 5% import duty. However, the duty initially *exempted* cotton fabrics, yarn and thread. This generated a nationalist outcry that this exemption clearly revealed the extent to which Government of India was beholden to the ‘Lancashire caucus’, and that it was a ‘policy of Industrial development suited alone to foreign manufacturers’ (* Chandra, 1996:235). An article in *The Bangabasi* summed up the nationalist sentiment:

‘Be that as it may, as regards this question of the cotton duties, **the mask has now fallen off the foreign English administration of India.** The highest officials of the country, nay the entire official body and the leading newspapers in England, have had to make the humiliating confession – ‘**The boast in which we have been so long indulging, the boast that we govern India in the interest and for the welfare of the Indians,** is perfectly unfounded; *India is held and governed in the interests of the English merchants.*’³³

The new policy lasted only a few months, as yet again fiscal imperatives led to a corresponding 5% duty being imposed on cotton fabrics and yarns. However, for the first time a countervailing duty was also imposed on Indian produced cotton goods of 20 count and higher. This policy exposed the colonial authorities’ ideological position and provoked an unprecedented storm of reaction from nationalist actors. In fact, even some British officials spoke out against countervailing duties, both on the basis of their impracticability as well as the likely impact on emerging Indian industry. Finance Member James Westland argued in a dispatch to the Secretary of State that ‘of the manufactures of India, quite 94 per cent is absolutely outside of the range of any competition with Manchester being the coarser quality of goods (24s. and above) which Manchester cannot pretend to supply so cheaply as India’ (* cited in Chandra, 1966:236-7). Despite this broad-based reaction eventually yarn above 20 count – capturing 20% of Indian production – was placed under the countervailing duty. Westland later “apologetically conceded that the Government of India did not recommend the measure on its own merits but rather on account of the direction received from the Secretary of State” based in the Colonial Office in London (Chandra, 1966:237).³⁴

³³ *The Bangabasi*, 31 March 1894. Cited in Chandra, (235) emphasis added.

³⁴ An important point to note is that this tariff debate revealed tensions between the government in India and the Colonial Office in London, which were to come to return during WWI with the massive shortages, and beginnings of support to Indian industry. This is further explored in the next chapter.

Even with these massive concessions, British manufacturers continued to pressure the GOI resulting in further reductions in the import duty on British goods to 3.5% in 1896, and crucially, the placement of *all* woven goods from Indian mills under a corresponding 3.5% countervailing duty. Once again this resulted in a huge outcry from Indian nationalists. Industrialist and Indian National Congress member D.E. Wacha declared that the Congress would ‘agitate and agitate for the repeal of this iniquitous duty’ (* Chandra, 1966:239). Indian nationalists were not only concerned that the duty would harm India’s current production but also that ‘the excise duty would impede the Indian textile industry from turning to the spinning of finer counts of yard which was the main direction in which further expansion of this industry could take place.’ (* Chandra, 1966:241) This was a crucial rationalized causal idea that linked trade policy with industrial development. That is, the duty would preclude the dynamic productivity gains that are essential elements of fostering industrial upgrading from low value-added coarse cotton pieces to more technically sophisticated and high value-added fine counts. Upgrading was of course central to the dynamic outcomes of List’s infant industry model, and both Indian actors and colonial authorities were well aware of what Japan as well as the US and Germany had accomplished through providing protection to domestic industry. Pherozechah Mehta, a Bombay lawyer and founding member and President of the INC in 1890, argued ‘That principle and that policy are that the infant industries of India should be strangled in their birth if there is the remotest suspicion of their competing with English manufactures’ (cited in * Chandra, 1966:245). Even the moderate N.G. Chandavarkar added ‘under the present policy no Indian industry will be allowed to outgrow European competition’ in his 1900 INC Presidential address (cited in * Chandra, 1966:245). Nationalist actors were convinced that India was being run for the British despite the claims of beneficent stewardship that were central to justifying and legitimizing British colonial rule. Ex-INC President P. Ananda Churlu summed it up well in a speech on the 1896 Cotton Duties Bill in the Legislative Council when he declared that ‘While India is safeguarded against foreign inroads by the strong arm of British Power, she is defenceless in matters where the English and Indian interests clash and where (as a Tamil saying puts it) *the very fence begins to feed on the crop*’ (* Chandra, 1966:247).

The Swadeshi Response

The heightening tariff disputes combined with the increasingly well-articulated drain thesis led to the first occasion where the Indian National Congress did more than simply agitate. The Congress took more concrete action through the creation of the '*swadeshi*' or 'self-reliance' movement, which called for the boycott of foreign manufactured goods and the promotion of domestic production. Many in the nationalist leadership saw this as the only way to help indigenous industry as it had become clear that 'British benevolence' could not be relied upon.

The rationalized causal ideas and social meanings underpinning *swadeshi* can be traced to as early as 1840s, but these began to gain credence and popularity with an 1870 article in the indigenous paper *Native Opinion* and a series of lectures by Justice Mahadev Govind Ranade in Poona in 1872. Swadeshi thus emerged alongside the drain thesis. They are inter-related: drain theory provided the rationalized causal ideas for *Swadeshi*: proponents suggested that 'they are draining us, we need own industry'. The idea of *swadeshi* grew vigorously from 1880-1895 -- fueled by the growing market tensions between Indian cotton textiles and those from Lancashire -- and eventually exploded into acts of widespread social, political and economic resistance.

Initially, the realm of action was relatively small, situated mainly in Bombay Presidency, which was not only was the commercial and manufacturing center of Western India, but also the stronghold of indigenous Indian industry. Further, though popular dimensions had emerged as early as the 1870s, the *swadeshi* movement was the first attempt to broaden what had largely been elite nationalist agitations to the masses.³⁵ The movement exploded in 1896 with the imposition of the countervailing duty on Indian cloth generating huge boycotts, especially in Bombay. The sentiment was that since the GOI was doing little to support domestic industry, the people should.³⁶

³⁵ Of course, this is not to say that there weren't acts of resistance amongst non-elites, as the wealth of literature on subaltern studies has demonstrated.

³⁶ Social pressures were also applied against those who failed to follow the strictures of *swadeshi* and bought British products. Were also many salient material representations of *swadeshi* including coins that

This popular dimension is seen most clearly in the growth of popular songs supporting indigenous manufactures as well as agitations against traders who stocked foreign goods. Songs were a major tool used to promote *swadeshi* and the boycott of British goods in favor of Indian substitutes. They reflect the power of songs as cultural resources embodying salient social meaning and practice, as well as the processes through which nationalist actors deployed cultural schemas as valuable resources in representational politics. This expanded the realm of contestation beyond the domain of elites to encompass the masses, all with major effects on market outcomes.

An analysis of two of these songs reveals the affective content and social meaning of growing Indian economic nationalism that the songs harnessed and directed towards the goal of indigenous industrialization. The first laments the plight of India's traditional artisanal class – the weaver and the blacksmith – and the extent to which they have been displaced by British imports of textiles and metal goods (threads and needles). This artisanal class was the group that held the industrial skills that would have propelled Indian industrialization if it were not for British colonial policies. The song invokes drain theory with the vivid metaphor of locusts ravaging the land and provides a clear rationalized causal relationship between colonial trade policy and industrial development.

The weaver and the blacksmith are crying day and night
They **cannot find their food by plying their trade**
Even threads and needles come from distant shores
Even match-sticks are not produced in the country
Whether in dressing themselves or producing their domestic utensils or even in lighting their oil lamps...
In nothing are the people independent of the foreign master...
Swarms of locusts from a distant island coming to these shores have eaten up all its solid grain
leaving only the chaff for the starving children of the soil

A second song evokes similar emotive power, calling for Indian artisans and consumers to defend themselves against the 'looting' of the foreigners, promoting consumer demand for Indian milled grains and spun textiles. Most importantly, the framing empowers action by calling for Indians to not stand idly by, but to contribute to preventing the drain.

were circulated and used as legal tender in swadeshi shops during the period when the British were imposing a uniform monetary system.

We may be poor we may be small,
 But we are a nation of seven crores [seventy million]...
 Defend your homes, protect your shops,
 Don't let the grain from our barns be looted abroad.
We will eat our own coarse grain and wear the rough, home-spun cloth,
 What do we care for lavender and imported trinkets?
Foreigners drain away our mother's milk [*Bharat Mata's* or Mother India's]
 Will we simply stand and watch.

Colonial authorities dismissed proposals for protection of indigenous capital within the colonial space, but this did not deter nationalist objectives. Surendath Banerjee, President of the INC in 1895 and 1902, argued that 'If protection by legislative enactment is impossible, may we not, **by fiat of the national will**, afford industries such protection as may lie in our powers?'³⁷ Bipin Chandra Pal similarly argued that:

Protection, with a view to controlling foreign markets, is absolutely impossible under present circumstances. But we can, by regulating consumption, have some sort of protection for our indigenous arts of industries; and the regulation of consumption is the economic principle that underlies the national boycott movement.³⁸

Thus in the absence of legislative power, Indian nationalists sought to draw on the 'will of the people'. Naoroji added that, while it may seem simple and futile, the use of songs as tools of nationalist agitation could prove powerful: 'We may laugh at this attempt [singing of songs to preach the discarding of foreign goods] as a futile attempt to shut out English machine made, cheaper goods against handmade dearer ones. But little do we think what this movement is likely to grow into, and what new phases it may take in time" (Naoroji 1871[1962]:207) cited in Goswami 1998:624). Indians also took note of "the successful Chinese boycott of American goods" (* Chandra, 1966:136), in yet another example of Anderson's (2006 [1983]) modular nationalism. The colonial government took these songs seriously and banned popular *swadeshi* texts. However, by the time they had done so many had already been widely distributed in written and oral form, and were being performed regularly in towns and villages all across India.

Ultimately, these efforts amounted to contested attempts by nationalist actors to regulate industrial dynamics in an increasingly institutionalized national economic domain. This

³⁷ [Surendath Banerjee, INC, Papers, Vol. 11 1902].

³⁸ Bipin Chandra Pal (1907); *see Goswami (1998:628).

domain was controlled by the Raj and structurally located in a globalized world economy that in turn was dominated by the material and cultural power of British capital and free trade ideology. Nationalist strategies had to match the duality of the structures they challenged. The *swadeshi* movement was not only successful in raising consciousness within India about the promotion of indigenous industry, but also contributed to the successful establishment of indigenous enterprises such as the Tata Iron and Steel Company (TISCO) and a number of banks.

By the turn of the century the INC was openly calling for state support in the promotion of indigenous industry and taking an increasingly oppositional stance towards the Raj. The role of the state in the Meiji revolution in Japan was seen a model that could be emulated by the GOI. “One of the most commonly invoked examples of an organic national society and economy within *swadeshi* discourse was Japan. Within the geopolitical imaginary of *swadeshi*, Japan occupied, especially after its victory over Russia in 1905, a central normative significance” (Goswami, 2005:219). Japanese victory demonstrated convincingly that an Asian country could challenge and defeat a European power both militarily, which was taken as a proxy for industrial and economic power.³⁹ The *swadeshi* movement had contributed to galvanizing the nationalist effort as the two became increasingly intertwined. “The industrial movement is flowing deep, fraught with national ideals...Our industries need protection. But this government will not grant them protection...the time has come when the scattered national impulses must be focused into an organic and organized whole for the promotion of our industries.” (*Chandra, 1966)

The response of the Raj was predictable, rooted as it was in the material and cultural imperatives of British hegemony. The claim was that the ‘Government was ill-qualified to further industrial development by direct action, and that all such matters should be left to private enterprise’. The INC was undeterred, and put forward various resolutions that called for ‘practical steps in the shape of State encouragement be taken for the revival and development of indigenous art and manufactures and for the introduction of new

³⁹ Indian nationalists admiration of the rise would shift as Japanese goods began to compete with Indian products. The complexities of the perceived economic relationship between Japan and India is discussed further in the next chapter.

industries' (* Chandra, 1966:113). Nationalists identified specific policy measures through which assistance could be provided, such as reorganizing the credit system and transforming trading and moneylending capital into industrial capital.

Unsurprisingly there was significant skepticism amongst the general membership of the Congress and in the nationalist press about the likelihood of a positive response from the colonial authorities:

'It is in the interest of the English Nation to keep down the native industries as much as possible to encourage directly their development. The greatest benefit the English rulers look to and actually realize from their Indian dependency is **the unlimited market that India supplies their industrial products**. Under such a state of things it is impossible to expect Government to do anything like what the Poona writer [G.V. Joshi] suggests.'⁴⁰

The *Bangabasi* went further:

There can be no denying that the help of Government is absolutely necessary in reviving and improving the indigenous industries of the country...But can any encouragement of Indian industry be expected from a Government, which is not only **a Government of foreigners and of aliens in religion**, but also the Government of a people who are themselves a manufacturing and a commercial people...The fact is **the English manufacturer cannot bear the sight of an Indian using even the most trifling articles of indigenous manufacture, and he will know no rest until he has swept the Indian market clean of all articles of Indian making**...And these English manufacturers are the English nation, whose interest, before that of all others, it is the subject of English statesmanship to look after and secure.⁴¹

This was the widely understood and rationalized idea under which the colonial government refused to provide assistance to nascent Indian capital.

The Role of Foreign Capital in Indian Industrial Development

Though it was implicit in much of the early discourse, Indian nationalists began to directly address the role of foreign capital in India's industrial development towards the end of the 19th century. Chandra (1966) suggests that the nationalist leadership was for a long time "confused, divided, and hesitant" in its approach to the role of foreign capital in India. This reflects the uncertainty stemming from competing causal ideas surrounding the issue of foreign-domestic actors that is analyzed in detail in the ensuing chapters. This

⁴⁰ *The Hindu*, 3 February 1890. Cited in Chandra, (1966:121).

⁴¹ *The Bangabasi*, 31 May 1890, cited in Chandra (1966:121).

uncertainty underpins the dynamic and contested dimensions of the preference formation process as economic sociologists and political scientists have noted (Beckert, 1996; Blyth, 2002). Nationalists initially had little say during the initial construction of railways, canals and other ‘modern’ infrastructure that was negative towards foreign capital. “However, as Indian-owned industries slowly developed and the Indians became aware of the effects of its dominance, criticism of foreign capital began to appear and to grow” (Chandra, 1966). Dadabhai Naoroji epitomized this preference change. In the 1880s, after his initial views on the drain were published, he cited John Stuart Mill in suggesting that foreign capital could set an example and act as stimulant to domestic industrial efforts. Justice M.G. Ranade similarly suggested that foreign capitalists could act as teachers to Indian entrepreneurs:⁴²

This is the practical work which Providence has set down for us to learn under the best of teachers...We have to improve our Raw Materials, or Import them when our Soil is unsuited to their production. We have to organize Labour and Capital by co-operation, and **Import freely Foreign Skill and Machinery, till we learn our lessons properly and need no help.** We have rusticated too long; we have now to turn our apt hands to new work, and bend our muscles to sturdier and honester labour. **This is the Civic Virtue we have to learn, and according as we learn it or spurn it we shall win or lose in the contest...**I feel sure it will soon become the creed of the whole Nation, and ensure the permanent triumph of the modern spirit in this Ancient Land.⁴³

This was a crucial early articulation of causal ideas of FDI as a positive contributor to indigenous industrial development though the mechanism of knowledge and technology transfer. These ideas would become essential in the politics of FDI in the immediate post-independence import substitution and later economic liberalization eras. However, by the 1890s there were few supporters of foreign capital to be found amongst Indian nationalist elites. These actors now questioned the circumstances surrounding what had previously been considered progressive industrial development by foreign capital as the distribution of benefits were now seen as skewed. Naoroji suggested that rather than encouraging

⁴² This thinking sought to strike a balance between excluding foreigners and bringing in foreign capital to facilitate technology transfer and learning amongst indigenous firms. This is central to the construction of industrialization in the post-independence import substituting industrialization and more recent economic liberalization periods that are the focus of the last two chapters of the dissertation. It speaks perfectly to the relationship between foreign capital, learning and industrialization in the politics of joint ventures, and the continuity of institutions that emerged in the late 19th century. This is a key part of the technological imaginary, not only what is possible but how to acquire the capabilities, and crucially, the idea that this is important in the context of global competition. One cannot overstate the extent to which these are the very same ideas that animate debates on liberalization in the 1990s and 2000s.

⁴³ [Justice Mahadev Govind Ranade Ranade, Essays, 1893/1990:277-8..., cited in Chandra p66]

domestic efforts, foreign capital turned the Indian people into ‘hewers of wood and drawers of water to the British and foreign capitalist’ (* Chandra, 1966) while G.S. Iyer argued that foreign capital reduced ‘the Indian people to the lot of a race of coolies under white masters’ (* Chandra, 1966).

Nationalists views are well-reflected in Dadabhai Naoroji’s testimony to the 1895 Welby Commission in response to questioning as to why Indians didn’t start new industries:⁴⁴

Naoroji: What is the reason they were able to take up these industries, such as tea or any of these industries, or any of these enterprises which the foreigners came and took possession of; **is it not because our capital is carried away from the country?**

Gokhale: Yes, this is so.

Naoroji: Is not that at the root of the whole thing?

Gokhale: Yes, it is the root of the whole thing.⁴⁵

Bipin Chandra Pal further argued that:

“The introduction of foreign, and mostly British, capital for working out the natural resources of the country, instead of begin a help, is, in fact, **the greatest of hindrances to all real improvements in the economic condition of the people.** This **exploitation of the land by foreign capitalist** threatens to involve both Government and the people in a common ruin...It is as much a political, as it is an economic danger. **And the future of New India absolutely depends upon an early and radical remedy of this two edged evil.**”

Ultimately, “the opponents of foreign capital came to believe that genuine economic development and improvement of the country was possible only if Indian capitalists themselves initiated and developed the process of industrialization, and that foreign capitalists were incapable of fulfilling this task.” (Chandra, 1966). G.S. Iyer of *The Hindu* was certainly of that view, declaring in 1901 that:

‘I am not aware of any instance of a country, either in modern or ancient times...where a number of **foreign capitalists**, with all the political and social advantages of their being of the ruling race, **have helped in bringing about the industrial prosperity** of the people ruled...I do not hesitate to say that only in this way, that is, **by educating and training our own people so as to enable them to take into their own hands the manufacture of our raw materials that non-agricultural wealth can be created.**’⁴⁶

⁴⁴ The Welby Commission was appointed to examine the apportionment of civilian and military expenditures (the controversial ‘home charges’) between the Government of Great Britain and the Government of India.

⁴⁵ Naoroji’s position is in stark contrast to earlier views about the need for foreign capital given the inability to mobilize indigenous capital.

⁴⁶ GS Iyer, 1901. Cited in * Chandra, 1966).

Foreign capital was seen as blocking Indian capital in a variety of fields including those where little foreign technology was required such as banking. After destroying handicrafts, the view was that foreign capital would occupy all of the *potential* areas where indigenous capital might be ready to enter in the future, even if not at present, thus limiting the capacity for dynamic industrial upgrading. Finally, there was recognition of the close links between economic domination by foreign capitalists and political control by the British. As early as September 23 1889, an editorial in *The Hindu* noted that “if during the period of reforms ‘the influence of foreign capitalists in the land is allowed to increase, then adieu to all chances of success of the Indian National Congress, whose voice will be drowned in the tremendous uproar of “the empire in danger” that will surely be raised by the foreign capitalists’ ” (* Chandra, 1966). Such statements by nationalist actors underscored the importance of ensuring there was a viable Indian capitalist class that could perform the role of industrial development that foreign capital was deemed politically unsuitable for and in any case unwilling to perform. The perceived challenges of identifying a indigenous economic actors possessing the ‘right orientation’ to pursue industrialization would become a major issue for modernizing nationalist political actors in the early twentieth century as this next chapter will show.

VI. Conclusion

This chapter elaborated the analytic framework introduced in the previous chapter by identifying the institutional origins of Indian economic nationalism in the late 19th century. It employed Sewell’s (1992) ‘duality’ to recognize agency, build the possibility and mechanisms of institutional change into structure and overcome the cultural-material divide that limits much analysis in the new institutionalisms. It lay the foundation for understanding how nationalist preferences towards foreign capital were emerged, setting the stage for the next chapter which shows how these preferences evolved from the onset of World War I up to independence in 1947.

As the 19th century came to a close, developments in trade policy and the emergence of the *swadeshi* movement helped nationalists to make their economic critique stronger,

more articulate and more comprehensive. Romesh Chunder Dutt, a former member of the Indian Civil Service, built on the work of Naoroji and other early nationalists to provide an elegant elaboration of the emergent nationalist argument in his masterful two-volume *The Economic History of India* published in 1901 and 1903. The series was a capstone for the previous thirty years of nationalist thought and activism. It provided a powerful master narrative of Indian economic history beginning with the effective launch of East India Company rule following the Battle of Plassey in 1757 and explained India's subsequent poverty under the British in terms of drain theory. Following his predecessors Dutt argued that liberal British economic policy had deindustrialized India in favor of British industrial capital by destroying the vibrant handicraft industry through the promotion of 'free trade' (Dutt, 1901). From the beginning of *Volume 1*, Dutt stressed the view that for centuries before the rise of Europe as an industrial and imperial force, India's vibrant handicrafts industry produced a wide variety manufactures, including jewelry and iron works that were well known for their quality around the world. Dutt's *Economic History of India* was critical in providing an "artful fabrication of a constitutive link between the existence of India as a nation and its ability to exert control over its resources" (Prakash, 1999:186-7).

This theoretical framework had crucial implications for emerging preferences towards foreign capital amongst nationalists political actors as well as emerging Indian capitalists. Though Dutt was not the first to promote this viewpoint, "he fashioned it most systematically. After him, the [20th century] nationalists routinely invoked concepts of village communities, deindustrialization, and economic drain to formulate and press the claims of the nation" (Prakash, 1999:187). Dutt's two-volume series spoke directly to the development of indigenous industry, and the growing tension between foreign and indigenous capital that is further explored in the next chapter.

Swadeshi agitations and frustration with the stymieing response by the British eventually led to calls for *swaraj* or 'self rule' by Dadabhai Naoraoji in a 1904 speech to the International Socialist Congress and a 1905 speech to the Benares session of the Indian National Congress. He attributed India's poverty to the lack of industry, which in turn

was attributed to the drain that could only be halted by self-government. The first Indian Industrial Conference was also held in Benares alongside the INC meeting with Dutt as the chair. The Conference called for the expansion of commercial and industrial education, and the compilation of information on indigenous methods of trade, finance, and organization.

The *swadeshi* movement “combined economic grievances with nationalist imperatives” (Prakash, 1999:187) by demanding that the British end their exploitation of Indian resources and calling for the state intervention to facilitate the development of indigenous industry. The vision of developmentalism embedded in *swadeshi* self-reliance ideology required a developmental state, thus providing the crucial link between the late 19th century *swadeshi* movement and the early 20th century agitations for *swaraj* that became closely associated with Mohandas Gandhi, Jawaharlal Nehru and the Indian National Congress. Gandhi referred to the *swadeshi* strategy as the ‘soul’ of *swaraj*, and argued that ‘*swaraj* without *swadeshi* is a lifeless corpse’.⁴⁷ The combination of *swadeshi* and *swaraj* underpinned a particular conception of a developmental state that was fueled by developments in Japan and other late developing states. It pervaded the debates of the 1930s between Gandhians and Nehruvian ‘scientific socialists’ that is the focus of the Chapter Five, and the policy approach of the post 1947 independent Indian state that is described in Chapter Six in comparative perspective with Brazil.

Finally, though this chapter focused heavily on causal ideas drawn from economic theory, indigenous elite critiques were not limited to the economic sphere. Nationalist actors also developed and deployed rationalized scientific ideas, epitomized by Prafulla Chandra Ray’s *A History of Hindu Chemistry* written in 1902. Much as with the construction of the drain theory, the nationalist scientific elite sought to appropriate the past by highlighting Vedic scientific advances, steeped in particular interpretations of Hinduism

⁴⁷ Gandhi further linked *swadeshi* and *swaraj* with cottage industries, village production and ‘traditional’ homespun *khadi* cloth. It contrasts sharply with Nehru’s vision of India’s economic future as driven by large-scale, technology intensive, ‘modern’ industry. These differences in the content of Gandhian and Nehruvian nationalist proposals lay at the core of their disputes about the path of India’s industrial future in the 1930s.

that predated European scientific knowledge.⁴⁸ The book reflected Ray's own frustrations with the limitations he faced in professional advancement. Chandra Ray was the son of "a prosperous *zamindar* and a man of wide culture" who had a doctorate in inorganic chemistry from the University of Edinburgh. Despite strong recommendations, his application to the India Office in London for entry to the Indian Educational Services was denied, as the service remained closed to Indians.⁴⁹ His social background, like that of other nationalist actors, provided him with the material and cultural resources and capacity to creatively combine Indian and European cultural schemas laced with meaning of tradition and modernity in the production of his powerful nationalist scientific ideas. The underlying view of past Indian scientific knowledge complemented the economic arguments around past Indian industrial skills, both of which had been destroyed by British colonialism which drained material resources and knowledge, such that they could not contribute to emerging industrialization as in other late developing states. Much as nationalist actors combined 'negative' drain theory critique with the 'positive' critique from List's infant industry ideas, Chandra Ray's 'Hindu Chemistry' provided crucial content to Indian nationalist proposals at the dawn of the 20th century, not least by linking technology and economics to generate new rationalized ideas of the industrialization process. This causal link would lie at the center of competing ideas that legitimized and delegitimized foreign investment and business practices of multinational firms in the post-independence period. The ideas and social meaning also motivated many nascent Indian industrialists: Chandra Ray himself was the founder of several industrial concerns including India's first pharmaceutical company, Bengal Chemicals & Pharmaceuticals.

The Chapter Five elaborates the technological imaginaries generated by Chandra Ray and by the new generation of nationalists -- Gandhi and Nehru in particular -- in the first few decades of the 20th century. The combined political salience of nationalist economic critique and visions of technology underscores the argument in the previous chapter about the mutual constitution of economic theory, technology and nationalism. These views on

⁴⁸ This inversion of the Western-Eastern modernization dialectic retains political virility as well as religious overtones in the discourse on globalization in India in the post-1991 liberalization era. This is voiced most clearly by the Hindu nationalist fundamentalist sectarian elements of the RSS/BJP (cf. Kaushik Sunder Rajan (2006:fn 14).

⁴⁹ "Sir Prafulla Chandra Ray" in *Science and Culture*, Volume II, No. 2, August 1936.

science and economics provided the means-ends relationships through which nationalist ambitions could be realized, thus constituting the process of preference formation. Finally, the elaboration of these views served as a powerful means of political mobilization: British colonial power had destroyed India, and the only way to fix it was to enlist political representation from Indians who were members of the 'educated middle-class': elites like Dutt, Chandra Ray, and the leadership of the Indian National Congress.⁵⁰

⁵⁰ There is of course a crucial critique of this elite narrative in subaltern studies.

CHAPTER 4

Capitalist Emergence: Constructing the Cultural Category of 'Indian Economic Man'

I. Introduction

This chapter analyzes the emergence of Indian economic actors in the politically contested industrial policy domain. It builds on the analysis of imperialist-nationalist discourse in Chapter Three by examining the construction of the cognitive and cultural category of 'Indian Economic Man'. The chapter has both theoretical and empirical goals. It continues to elaborate a constructivist political economy by offering an agency-centric theoretical approach to culture while providing the empirical analysis of the emergence of indigenous capitalists as political actors during the first three decades of the 20th century.

The analysis considers the relationship between four sets of actors that occupy the institutional domain of industrial policy: British colonial authorities, British managing agencies, Indian nationalist political actors and indigenous Indian capitalists. It begins by identifying a common problem that colonial and nationalist political actors faced: the 'traditional' economic conventions of 'Indian economic man' were considered incommensurate with the norms and institutions of modern capitalism that the British sought to impose on the Indian colony as well as the developmental ambitions of Indian economic nationalists. It shows how otherwise competing British colonial and Indian nationalist actors arrived at a similar binary traditional-modern culturalist conception of the 'orientation', strategies and practices of Indian business actors. They shared elements of this interpretative frame despite their otherwise radically divergent political objectives. It does so by presenting the conflicting preferences and objectives of colonial and nationalist actors before identifying how the dichotomous cultural categories of 'traditional' and 'modern' ascribed to Indian economic actors and increasingly to British managing agencies nevertheless served both of their modernizing purposes. These cultural categories of 'traditional' and 'modern' served to legitimize and delegitimize particular business practices and strategies of Indian economic actors and crucially, would become ascribed to specific Indian capitalists, caste-based community groups and business houses. Finally, categories of capitalist legitimacy were not limited to Indian

economic actors. They were also increasingly ascribed to British economic actors as colonial demands shifted from those which required the ‘buccaneering’ norms of the traditional managing agencies to the norms that came to define the emerging ‘modern’ organizational form of the multinational corporation.

The rationalized causal logics that underpinned the legitimizing and delegitimizing cultural categories of capitalist legitimacy can be described as follows. Colonial political authorities were informed by the liberal tenets of classical political economy. This logic naturalized British intellectual, technological and economic dominance and prescribed free trade policies as the optimal approach to organizing economic activities within the colony and between the colony and the global economy. This logic underpinned imperial objectives of retaining political control of the Indian colony for the British Crown, which was achieved through maintaining economic control of the Indian economy for British firms.¹ Indian business had an important albeit subordinate role in facilitating these colonial goals as junior partners to their British counterparts. By contrast, nationalist political figures understood India’s position through the interpretive lens of the drain theory critique of liberal political economy. This cognitive and cultural schema had both logical and socially meaningful components, which held that the British brutally extracted India’s resources, destroyed its native industry and hindered the rise of a new class of indigenous capitalists. Nationalist actors resented the dominance of the economy by British firms – as foreign economic control was considered tantamount to foreign political control. Foreign capital was interpreted as a ‘neo-imperialist instrument’ and nationalist political actors were intent on promoting Indian business. However, this rationalized logic did not automatically legitimate all indigenous economic actors on the basis of being Indian. Nationalist actors distinguished between Indian economic actors who pursued ‘traditional’ business practices of trade and speculation as well as

¹ One of the main arguments of the dissertation is that economic actors’ policy preferences cannot be deduced based on assumptions of rational behavior and economic actor’s position in the socioeconomic structure. Preferences are shaped by cultural schemas – systems of meaning and thought that embody rationalized causal means-ends relationships and logics imbued with historically salient social and political meaning that shapes action. Economic interests and policy preferences thus are neither natural nor automatically given; preferences are formed through historically embedded sociopolitical processes that shape the experiences of economic actors. The theoretical underpinnings of this argument were elaborated in Chapters One and Two, and is a central theme throughout the rest of the dissertation.

comprador activities of *banians*, Indian brokers and middlemen that facilitated the commercial dominance of private British capital. As such, though both colonial and nationalist actors were interested in economic development, the former wished to maintain India as a colonial satellite and growing market for British goods while the latter wanted India to establish its own footing on the world stage. Nevertheless emerging Indian capitalists were important instruments in the achievement of both colonial and nationalist objectives.

Finally, the chapter assesses the response of indigenous capitalists and highlights their attempts to navigate this politically contentious and dynamic institutional environment. While colonial and nationalist actors provided conflicting cultural representations of emerging Indian capitalists, it shows that these Indian economic actors were neither political tools nor cultural dopes; they displayed significant agency in resisting the attempts of modernizing imperial and nationalist actors to categorize them as backward. They challenged this cultural categorization by organizing and projecting an image of themselves as ‘modern’ economic actors, thereby asserting a role as expert managers of the Indian economy and a viable alternative to foreign capital in the nationalist pursuit of industrial development.² The content of these categories is outlined in the table below.

Cognitive and Cultural Categories of Capitalist Legitimacy in India (1900-1930)

<p style="text-align: center;">TRADITIONAL</p> <p>Illegitimate Indian economic actors <i>Traditional:</i> Colonial and nationalist conceptions of traditional ‘Indian Economic Man’ or comprador actors.</p>	<p style="text-align: center;">MODERN</p> <p>Legitimate Indian economic actors <i>Modern</i> Nationalist conceptions of Indian economic actors as emerging ‘captains of industry’.</p>
<p style="text-align: center;">TRADITIONAL</p> <p>Illegitimate foreign economic actors <i>Traditional:</i> Nationalist conceptions of foreign capital as ‘neo-imperial instruments’. Colonialist increasing perception of Managing agencies as outdated</p>	<p style="text-align: center;">MODERN</p> <p>Legitimate foreign economic actors <i>Modern</i> Colonialist perceptions of MNCs as modern. Nationalist perceptions of MNCs as potential technology providers.</p>

² [However, the dissertation remains attentive to crucial variation amongst Indian capitalists.]

The rest of this chapter is organized as follows. Section II describes the emerging interactions between colonial and nationalists actors and the dichotomous traditional-modern categories and discourse around 'Indian economic man'. Section III discusses the effects of developments in colonial regulatory and surveillance capacity through the rise of the Japanese commercial threat to nascent indigenous Indian industry, while section IV continues the discussion with the first steps towards colonial industrial policy. Section V considers formal collective action amongst indigenous capitalists as they sought to project a modern conception of themselves and challenge the hegemony of foreign capital, and section VI concludes with a brief summary and introduction to Chapters Five.

II. Capitalist Emergence:

Constructing Indigenous Economic Agents and Modernizing Indian Economic Man

Indian nationalist actors took proactive steps to promote nascent indigenous industry following the late 19th century agitations detailed in the previous chapter. These steps included organizing an industrial exhibit at the Indian National Congress' annual meeting in Calcutta in 1901 to showcase the products of Indian indigenous industry. Following the exhibit's success, the event was repeated at the annual meetings in Ahmedabad in 1902, Madras in 1903 and Bombay in 1904, culminating in the first Indian Industrial Conference, held in Benares in 1905 (Kochanek, 1974:157). The event was held alongside the Congress annual meeting convened under the Presidency of Romesh Chandra Dutt, who had just published an extensive critique of colonial rule in his two-volume *Economic History of India* that established him as the contemporary leader in nationalist economic thought. Conference participants produced a range of resolutions to lobby the colonial government to support the development of Indian manufacturing industry. The conference also led to the formation of committees in major cities across the colony to study local industry with the aim of promoting nascent domestic firms and indigenous industrialists.

British colonial officials also began to participate in the Indian Industrial Conferences as they grew over the next few years. The conferences thus became an important venue of

interaction between nationalist and colonial figures - competing sets of modernizing actors seeking to map India's economic future.³ These discussions covered a range of general policy issues relating to the economic wellbeing of India's population, from the poverty and periodic famines that had wracked India for the past few decades to the promotion of indigenous industrial development. However, in addition to core issues such as tariffs and new developments such as the growing threat of Japanese competition, they increasingly turned their focus to the general 'state' of Indian economic actors.

Despite their many differences on policy issues, nationalist and colonial actors shared common concerns with the 'traditional' cultural norms that they perceived as governing the economic behavior of Indian business communities.⁴ Indigenous merchant-traders of the 19th century -- India's emerging capitalists of the 20th century -- were crucial economic actors who facilitated colonial extraction and the functioning of the Indian economy since the days of the East India Company. However, as the British colonial authorities transformed the economy in the late 19th century through the implementation of formal institutions of modern capitalism (as opposed to the governance mechanisms that facilitated the mercantilist objectives of the East Indian Company) and nationalist actors deployed *Swadeshi* logics promoting indigenous industrialization, both groups feared that Indian economic actors lacked the appropriate 'orientation' to undertake modern economic activities. Modernizing colonial *and* nationalist political actors believed Indian merchant-traders were trapped in the 'traditional' cultural conventions of kinship, clan and caste – norms that were out of line with the operation of a modern economy and the pursuit of industrial development. This created significant angst:

At the government-sponsored Indian Industrial Conference of 1912, for example, **colonial administrators and nationalist intelligentsia contemplated the state of 'Indian Economic Man'**, articulating an ongoing interest in reforming the ways of

³ These interactions were the beginning of a dialogue that increased throughout the late colonial period. The emergence of these types of interactions between colonial and national political actors complicates the nationalist-colonial relationship and the extent to which these actors worked together or at odds with one another.

⁴ Marwari merchant-traders epitomized these traditional cultural norms even relative to their Parsi and Gujarati counterparts, and the stereotypes about Marwaris persist in Indian business and economic discourse to this day. These inter-community distinctions became particularly important with respect to foreign capital in the post-independence period.

indigenous merchant-capitalists, **who operated through ties of kinship, clan and caste.** These *vernacular* [indigenous] *practitioners of capitalism* were universally recognized as key actors in the colonial economy, for their extensive credit networks had fueled commodity production, exchange, and consumption since the early days of the East India Company. But **according to early twentieth century modernizers, Indian Economic Man required a radical makeover.** Donned in 'ragged dress', he was burdened by family and caught in tangled customary webs regulating partnerships and the 'division of parental property'. The assessment was dire: **Indian Economic Man evinced 'no economic ambition, only longing for nirvana'.** Policymakers, both colonial and nationalist, who sought to promote economic development, **especially *swadeshi* or home industry,** argued that the 'indigenous system of banking and other business' posed a challenge for India's progress, for **'men trained under it are generally incapable of taking broad views of things or rising above their traditions'.**⁵

These 'anti-modern' behavioral norms and cultural practices of 'Indian economic man' were considered incommensurate with both colonial and nationalist ambitions and objectives. They were misaligned with the newly reformed institutional environment that the Raj had installed to facilitate further colonial extraction, and ill-equipped for the process of industrialization through indigenous firms that *Swadeshi* Indian economic nationalists sought to promote.⁶ Despite their many differences, both modernizing projects required economic actors that fit the cultural categories of modern industrial capitalism prescribed by the logics of classical political economy and epitomized by Adam Smith's *homo economicus*: rational self interest, recognition of market incentives and relentless pursuit of profit-making opportunities.⁷ Indeed, the description of raggedly dressed 'Indian economic man' in the official conference report was preceded by a representation of 'Western Economic Man' and his transformation from narrow individualistic profit maximization to benevolent contributor to societal advancement:

The conception of an 'economic man' in western economies has been very limited. He was at one time depicted as a man **bent on making profits**, ...as a man **stern and**

⁵ Birla (2009:2), emphasis added.

⁶ This institutional environment was constituted of both informal norms and belief structures, such as those that underpin economic interests and policy preferences, as well as formal policies and legal rules.

⁷ As argued in the previous chapter, classical political economy arose with the Enlightenment as a means of rationalizing and providing the mechanisms of control for the rapidly evolving European societies. The Enlightenment provided the cultural and intellectual framework for the application of scientific knowledge to generate material benefits and the creation of the positivist 'scientific' disciplines of socio-economic analysis to organize, rationalize and control the social environment. Key amongst these was the notion that increased material output was broadly beneficial for all – this was central in Adam Smith's moral philosophy and underpins later conceptions Walrasian welfare economics, the framework that remains a central organizing principle in modern microeconomics (and as we will see in Chapter 7 on economic liberalization, provides the rationalizing frame for much of argument in favor of India adopting a liberal FDI regime).

determined, with hardly any heart and feelings. Ideas have now changed and the modern 'economic man' of the West is depicted **with a kindly face indicating benevolent intentions.** Now let us picture an Oriental and especially an Indian 'economic' man: His ragged dress...his wife and children...cares of dissolution of partnership...division of family property...and lastly no economic ambition...[only] longing for nirvana.⁸

Western economic man was re-conceptualized from harsh selfish individualism to kindly benevolence. This is precisely the transformation that Andrew Carnegie sought to portray in his 1889 essay 'Gospel of Wealth', which justified laissez-faire capitalism and the philanthropic responsibilities of wealth as he and his American 'monopoly capitalist' peers sought to transform their image from rapacious 'robber-barons' to legitimate 'captains of industry':

This, then, is held to be the duty of the man of wealth: To set an example of modest, unostentatious living, shunning display or extravagance; to provide moderately for the legitimate wants of those dependent upon him; and, after doing so, **to consider all surplus revenues which come to him simply as trust funds**, which he is called upon to administer, and strictly bound as a matter of duty to administer in the manner which, in his judgment, is best calculated **to produce the most beneficial results for the community** - the man of wealth thus becoming the mere trustee and agent for his poorer brethren, bringing to their service **his superior wisdom, experience, and ability to administer**, doing for them better than they would or could do for themselves... Thus is the problem of rich and poor to be solved. **The laws of accumulation will be left free, the laws of distribution free. Individualism will continue**, but the millionaire will be but a trustee for the poor, intrusted for a season with a great part of the increased wealth of the community, but administering it for the community far better than it could or would have done for itself.⁹

In stark contrast to 'Western economic man', modernizing colonial and nationalist figures believed indigenous economic actors "were driven by the narrow-minded and age-old *gemeinschaft* [community] requirements of kinship and clan, rather than a commitment to improving the wealth and material conditions of the [wider] colonial public" (Birla, 2010:84). These beliefs were consistent with the cognitive and cultural schemas that shaped their worldviews, informed by the logics of liberal political economy and


⁸ Indian Industrial Conference 'Summary of Proposals', in *Report of the Indian Industrial Conference*, pp. lix-lx. Cited in Birla (1999:240).

⁹ Andrew Carnegie (1889) 'Gospel of Wealth', *North American Review*. <http://history.hanover.edu/courses/excerpts/111carn.html> accessed August 28, 2012. This concept of capitalists as 'trustees' of the nation's wealth was adopted by Gandhi and formed a major point of conflict between his system of thought and Nehru's scientific socialism. Gandhian trusteeship played an important role in legitimizing large Indian capital in the Gandhianism. By contrast, Nehru was far more skeptical of these large indigenous private actors and as such they had less of a role to play in the Nehruvian system that he developed. These are discussed in Chapters Five and Six.

nationalist drain theory. For both sets of modernizing actors, Indian economic man failed to display the *gesellschaft* [individual] norms of relentless self-interest prescribed by classical political economy as the means through which societal gains were maximized.

Modernizing actors believed these 'Western' behavioral norms were necessary to facilitate the functioning of the formal institutions of contract, exchange and formation of joint stock companies that the British Raj had imposed in the late 19th century. A similar set of beliefs was also crucial for nationalist preferences towards foreign and domestic firms. The nationalist project required economic actors from traditional merchant communities that would shift from speculative trading and moneylending activities that had long been seen as rapacious and abusive of the poor, especially in rural areas. It also sought to curtail participation in local 'share bazaars' and the formal stock market in ways that appeared tantamount to gambling and direct these actors towards long-term capitalist investment in manufacturing industry, as indigenous ownership of industry would free India of foreign economic domination by British firms -- and hence political control by the British government. It would also support the development of an economy based on modern industry that would provide manufacturing employment, reduce poverty and raise India in the global pecking order of modern capitalist nation-states.¹⁰ Modern behavioral norms would thus generate economic benefits that were distributed outside of the narrow kinship-based communities in which Indian merchant-traders were embedded.

Colonial Cognitive and Cultural Categories of Capitalist Legitimacy in India (1900-1914)

Illegitimate Indian economic actors <i>Traditional: Colonial and nationalist conceptions of Indian economic actors as 'bazaar traders and speculators'. Trapped in ties of caste and kin. No economic ambition, only longing for Nirvana</i>	Legitimate Indian economic actors <i>Modern: 'Captains of Industry'</i>
Illegitimate foreign economic actors <i>'Traditional' Western Economic Man stern and determined, with hardly any heart and feelings; bent on making profits</i>	 Legitimate foreign economic actors <i>'Modern' Western Economic Man of the West depicted with a 'kindly face indicating benevolent intentions. Akin to Andrew Carnegies 'Trustees'.</i>

¹⁰ The challenge facing nationalists was that if indigenous economic actors were held to be incapable of generating modern industrial activity, nationalist actors had no where to turn. This would remain the conundrum until state ownership emerged as a viable alternative with the rise of Nehru's scientific socialism in the 1930s, as described in the next chapter.

The imposition of these legitimating and delegitimizing cultural categories in conjunction with the formal institutions of property, contract and commercial law supported by the technologies of economic monitoring described in the previous chapter served as governance mechanisms with which modernizing colonial and national actors could channel the behavior of Indian economic man towards 'modern' economic activities. By enforcing these cultural categories of 'traditional' and 'modern', colonial authorities sought to bring Indian economic actors into their regulatory purview, ensuring that they conducted the economic activities required by the colonial state. These were no longer limited to mercantilist resource extraction as pursued under pre-1857 East India Company rule; they now rested on sophisticated capitalist investment with its long time horizons, acquisition of leading technologies, efficient management of hundreds of employees and participation in politically sensitive labor negotiations. Crucially, by characterizing Indian merchant-traders as existing outside of capitalist cultural norms, modernizing nationalist-colonial actors reinforced a binary between traditional and modern capitalist conventions that had major implications for the distribution of resource flows through industrial policy support. These policies provided crucial rents through trade protection, government procurement and access to technologies, which in turn shaped the competitiveness of emerging Indian industry and the ability of Indian economic actors to compete with their foreign (largely British but increasingly Japanese, German and American) counterparts. Thus cultural categories created during this period of indigenous capitalist emergence could also be deployed as instruments of state patronage and control and, as Chapter 8 shows, these categories have retained political salience and continue to serve as resources for strategic actors engaged in policy contestation to shape regulatory and market outcomes during the current period of globalization and economic liberalization.

III. Colonial State Meets Native Capital:

Governance Technologies and Institutions for Regulating Indian Market Actors

The previous chapter described how Indian economic actors entered manufacturing industry through textile production during the cotton boom stemming from the US Civil War. However, emergent Indian merchant-capitalists began to seek new investment avenues following a slowdown in agricultural production in the 1890s along with clashes with colonial authorities over textile tariffs. This generally took two forms: financing commodity production overseas and increasingly, investment in diversifying industrial production from cotton and textile mills to other activities, such as steel, where the Tata Iron and Steel Company (TISCO) launched in 1907 is by far the best example.¹¹ This dynamic was later accelerated by the limited supply of a wide array of imported consumer goods during the First World War, which created the demand for import substitution and significantly boosted early diversification efforts.

As these market developments unfolded, late 19th and early 20th century advances in the commercial data collection capacity of the Raj provided the public with new conceptions of trade and industry. The Department of Commerce and Industry was created in 1905 to replace the Finance and Commerce Department in the colonial government, and a Commercial Exhibitions Branch was founded in 1906, a year after the first Indian Industrial Conference that itself emerged from Congress-sponsored industrial exhibitions that aimed to showcase the products of indigenous Indian firms. These developments not only increased the capacity of the government to monitor economic activity, they also brought the activities of indigenous merchant-industrialists and their contribution to the economy more clearly into view. The new data highlighted the scale of indigenous commercial activity, challenging pre-conceived notions of commercial dominance of the Indian economy by British firms.

The colonial state continued to increase its economic surveillance and governance capacity over the next ten years, culminating in the establishment of a Commercial

¹¹ Overseas commodity trade primarily occurred in other British colonies such as Burma, Malaya and Uganda and was typically conducted by members of the South Indian Chettiar merchant-trading community.

Intelligence Department in 1917 with the principal goal of identifying and taxing indigenous capitalists' booming war-time profits. However, rather than resisting these regulatory intrusions of the colonial state, many emergent merchant-capitalist "themselves attempted such information-collecting efforts to assert the leverage of Indian industry in imperial trade" (Birla, 2009:106-7). These colonial developments were welcomed as they allowed Indian economic actors to demonstrate that their economic activities had wider benefits for the country and thus served both colonial and nationalist purposes. For example, the major Bombay-based Gujarati textile firm Laximichand Dossabhai & Bros. wrote to the Commercial Intelligence Department suggesting the creation of a 'Commercial Museum and Intelligence Bureau' which would " 'undertake to furnish every possible information about the Indian and British manufactured goods and raw materials and give all facilities to promote...the increased Indo-British trade relation' " (Birla, 2009:106-7).¹² It represented an avenue of strategic action on the part of Indian capitalists as they sought to negotiate the cultural categories of legitimate economic behavior. Merchant-traders simultaneously sought to re-constitute themselves from scruffy, distrusted bazaar traders, moneylenders and speculators to legitimate capitalist-industrialists through whom the modernizing dreams of the colonial and nationalist imagination could be realized.¹³

Competing Interpretations of the Japanese Commercial Threat

Structural developments in the global economy provide an excellent illustration of the distributional implications of these traditional-modern capitalist cultural categories through economic policy rents. British colonial agents not only sought to delegitimize 'traditional' Indian economic actors relative to British but also relative to other foreign

¹² This reveals both the "new public presence of vernacular merchant-capitalists" as well as "their entrepreneurial ambitions" (Birla, 1999:106-7). It also reflected Indian capitalists' growing civic engagement, evidenced in their financial support of charitable endeavors, including health facilities and critically, scientific and commercial education institutions (Ibid). These institutions were to provide modern knowledge by which to harness nature and the market.

¹³ It is worth briefly reiterating the areas of overlap and divergence between colonial and nationalist groups here. Colonial actors primarily sought increased trade with UK-based firms while tolerating some low-end manufacturing in India, particularly as British firms vacated these areas and moved up the value-added chain. Nationalists wanted to see entry into technology intensive manufacturing to raise India out of poverty, improve India's in world standing, and ensure the creation of indigenous owned industry such that moves towards independence will not be constrained by economic domination by foreign firms.

economic actors. As noted in the previous chapter, Japan engaged in a major modernization and industrialization effort in the late 19th century to catch up to the West. The Meiji Restoration was a huge success, not only increasing Japan's manufacturing capacities but also its military capabilities, as convincingly demonstrated by Japan's victory in the Russo-Japanese War of 1904-5. Having built an industrial base through heavy state intervention and infant industry policies based on the economic ideas of Alexander Hamilton and Friedrich List, Japan became a formidable competitor in global export markets, and India – the jewel in the crown of the British Empire and the most important market for British manufactured exports – was squarely in the sights of Japan's aggressive new firms.

The rapid increase in Japanese imports threatened both Lancashire textile and other British manufacturing interests that exported goods to India and nascent Indian industrialists seeking to produce for their home market. This raised tensions between colonial authorities bent on retaining control of the Indian economy and nationalist actors committed to the development of indigenous industry. It also heightened the imperative facing nascent Indian capitalists to increase their participation in the public policy domain. This would allow them to state their case for policy support as legitimate capitalist-industrialists whose activities generated widely distributed social benefits and who could compete with foreign firms invading the Indian market. The level of concern is clear from a letter from the Department of Commerce and Industry in Delhi, to the Secretary of State in the Colonial Office in London, where colonial authorities noted that Japanese trade has been causing “uneasiness among educated Indians generally and in commercial circles in particular”:

For the present we would observe that although the five years' statistics apparently indicate trade development which may well have been advantageous to India and Japan, the figures conceal **a serious rivalry from which Indian industries, as distinct from Indian trade, have suffered.** Japan has set before herself, as is well known, the ideal of becoming one of the leading industrial nations of the world. Her Banks provide cheap loans to her manufacturers for this object; her **tariff** is so framed as to encourage the introduction of raw materials and to debar the import of manufactured goods while **her system of shipping subsidies** enables her to assist her overseas trade with rates of freight with which unsubsidized shipping cannot compete, and to flood the Far East and India with Japanese articles at exceptionally low prices. **As a result of this policy India is now**

inundated with cheap Japanese manufactures, competition which depresses the prospects of her nascent industries.¹⁴

First, it is crucial to note the crucial distinction that colonial actors drew between Indian economic actors located in trade versus those in industry. This distinction between traders and industrialists is central to the legitimacy that is accorded to competing categories of Indian economic actors, as will be demonstrated throughout this dissertation. Further, and tellingly, the exchange between colonial authorities reveals the contradictions in the liberal logic in their cultural construction of the Japanese capitalist whose cheap goods threatened to dominate the Indian market:

We fully recognize that in many, if not in most, respects the industrial success of Japan is based on **the enterprise and business acumen of her capitalists and on the skill of her artisans**. But there are other points in which we may claim that **the Japanese are unfair competitors**. We have already alluded to the assistance which Japanese merchants derive from shipping subsidies and from the cheap use of Government funds through the Banks. We are further informed that in practice, if not in theory, the government regulations for the control of work in factories are far more lax and far less humane than those in force in this country. **Such handicaps as these may not unreasonably be termed unfair to Indian manufactures of competing articles.¹⁵**

The contrasting portrayal of the Japanese capitalists relative to their Indian counterparts in official colonial discourse merits brief discussion. Colonial authorities describe the figure of the Japanese industrialist as successful due to “enterprise and business acumen,” as well as “the skill of her artisans”, characterizations that are in clear opposition to the ‘ragged Indian bazaar merchant’ attempting the transition to capitalist manufacturing. This is posited as the reason for the efficient production of Japanese manufactured goods, even while detailing the Japanese state supported mechanisms through which Japanese manufacturers are in fact “unfair competitors,” adding lax labor standards to the already-noted “shipping subsidies” and “cheap use of Government funds”. Nevertheless, Japanese economic man, like Western economic man, is placed in an opposing binary cultural category from Indian economic man.¹⁶ This cultural categorization legitimized foreign

¹⁴ Secret letter, #6 of 1916, from GOI, Dept of Com & Ind, to Rt Hon Austen Chamberlain, Sect of State for India, Delhi 31 March 1916. Records from the British Colonial Office housed in the British Library, London, emphasis added.

¹⁵ Ibid, paragraph #6.

¹⁶ This contradiction in the cultural categorization of Japanese capitalists is all the more stark given that these firms were primarily *zaibatsu*, large family owned merchant-trading-banking-industry groups that were embedded in tight kinship-based networks, just like the colonial caricature of Indian economic man. Further, the ‘big four’ of these groups – Sumitomo, Mitsui, Mitsubishi and Yasuda - had been heavily

economic actors and delegitimized Indians and with important implications for the provision of policy support. If Indian capitalists are being out-competed by Japanese due to their purported natural superiority in business, any suggestions for policy intervention to aid Indian industry is quickly deemed illegitimate and ultimately futile, precisely the position that colonial authorities expressed in the 1930s (as discussed in Chapter Five). The logic of industrial policy support is thus closely tied to the construction of economic actors' legitimacy. These categories are briefly summarized in the table below, with the arrow indicating competing conceptions of the legitimacy of Japanese economic actors.

Cognitive and Cultural Categories of Japanese Capitalist Legitimacy (1914-18)

Illegitimate Indian economic actors <i>Colonial interpretation of enterprise, acumen and skill of Japanese competitors implies Indian economic actors lack these 'modern' attributes.</i>	Legitimate Indian economic actors <i>Nascent Indian industrialists struggling against unfair Japanese competition</i>
Illegitimate foreign economic actors <i>Nationalist actors views of Japanese industry as "unfair competitors" due to "the assistance which Japanese merchants derive from shipping subsidies and from the cheap use of Government funds through the Banks [and] government regulations for the control of work in factories are far more lax and far less humane than those in force in this country. Such handicaps as these may not unreasonably be termed unfair to Indian manufactures of competing articles".</i>	Legitimate foreign economic actors <i>Colonial actors' interpretation of Japanese industrial success as "based on the enterprise and business acumen of her capitalists and on the skill of her artisans."</i>

The competition facing Indian industry as well as the contradiction in the colonial logic that sought to legitimize Japanese industry despite acknowledgement of the subsidies and weak labor regulations it enjoyed whilst simultaneously delegitimizing nascent Indian capital by implying it lacked the modern capitalist attributes of 'enterprise, acumen and skill of Japanese competitors' created an immediate nationalist backlash:

"The increasing importance of Japanese competition, the efficiency of its methods and the popular idea that it is heavily subsidized by the Japanese government, has had a marked effect on Indian public opinion. Indian newspapers freely criticize the apparent inaction of the government. They draw unfavourable comparisons between our attitude and that of the Japanese towards the promotion of industries, and charge us, in comparison, with indifference to the industrial future of India and to her commercial

promoted as national champions under the Meiji leadership, and as a result were the leaders of the resulting Japanese exporting charge.

prosperity. As an instance of criticism of this character, we reproduce below a paragraph from the 'Indian Patriot' of the 27th of September 1915:-

*'Public opinion has persistently and unequivocally expressed itself in favour of a vigorous and forward policy. We see around us the sign of a great change. Germany and Austria have ceased to export. Japan is straining every nerve to capture our market. We are aware of it all. We are conscious that in the race for progress and power, on which we are set, wealth alone will conquer. We are anxious to be wealthy, and, therefore, anxious to be an industrial country. But we can, it seems, only talk and the Government can only watch. Why should we not do what it has been possible for Japan to do? That question is on the lips of all. We refuse to take the answer that we are unfit and unprepared. We are fit for any work, and if Great Britain cannot prepare us for any work within the smallest time, we confess we must have misjudged the resources of Great Britain. The will alone is wanting – not in the people, but in the Government.'*¹⁷

The editorial in the aptly named *Indian Patriot* expresses the objectives and ambitions of Indian nationalists, as well as the causal logic that provided the means-ends relationship between industrialization and national wealth. Further, it reveals the crux of the debate between colonial and nationalist actors on the legitimacy of foreign and Indian capital: the 'fitness' of Indian economic actors and their 'natural capacity' to industrialize and compete in global markets. Finally, the editorial shows the political leverage that nationalist actors could exert over colonial authorities based on their own anxieties about retaining control of their most valuable imperial possession. In this sense nationalist agitators were empowered by Britain's weakening position on the top of the global hierarchy of imperial powers, particularly with Britain in the midst World War I.

There was growing recognition that the British Empire was in its twilight. The exchange between colonial officials notes the effects of Japanese victory in the Russo-Japanese War on the Indian view of Japan, initially as a protector of Asia from Europe, though Indian nationalists were becoming gradually becoming disenchanted with Japan's imperial activities in China and Korea.¹⁸ Tellingly, GOI officials then express their own concerns with the prospect of Japan's strengthening position in the country and its political motivations and 'machinations':

The Government of India cannot look forward to the probable future development of the situation without uneasiness. [Apart] from the purely industrial issues we cannot

¹⁷ Secret letter, #6 of 1916, from GOI, Dept of Com & Ind, to Rt Hon Austen Chamberlain, Sect of State for Indian, Delhi 31 March 1916.

¹⁸ It shows colonial fears of a perceived solidarity between Asian countries in a Western imperial global political economy.

regard it as other than undesirable that the Japanese should establish themselves on any large scale in this country. In fact, to the political aspect of the question we attach the most importance. The prestige of Japan is great and her ambitions unbounded. A **systematic commercial penetration may well be the precursor of wider schemes** the execution of which may not be imminent, but against which it is well to be forewarned. **Her national design is to dominate the East**, and whatever be the sentiments of Indians towards her at the moment [referring to disillusionment noted above], **the [role of] champion of the East against the West** is sure to evoke a response in an Oriental country.¹⁹

While cognizant of Japan's "ulterior political aims", the colonial authorities' immediate concern remained Japan's commercial policies.²⁰ These concerns coupled with nationalist agitations led the Raj to provide some limited industrial policy support.

We trust that the more vigorous industrial policy which, as indicated in our dispatch of 26 November 1915, we hope shortly to initiate, **may assist Indian enterprises in some measure to meet competition from Japan**; but in the meantime we cannot fail to recognise that our apparent inaction may, from the Indian point of view, be attributed either to fear of Japan or to the inefficiency of our methods. Our present attitude of careful abstention, for obvious reasons, from any discussion of Japanese competition in public documents or trade reports tends to confirm this view.²¹

IV. Indian Capital and Colonial Industrial Policy

The colonial state attitude towards emergent Indian capital, which had hovered between indifference and hostility in the pre-war period, began to shift with the internal dynamics of nationalist agitation and the external commercial threat from rising powers such as Japan, Germany and the US. These attitudinal changes gained momentum with the structural developments that accompanied the onset of World War I.²² The colonial government faced sharp fiscal deficits as British financial resources were directed towards the war effort, necessitating increased revenue collection in India. Further, there was a sharp decline in manufactured imports due to the sudden redirection of British factory output from consumer goods to military armaments as well as shipping disruptions from naval conflict and the German U-boat threat. Finally, there was

¹⁹ Ibid, emphasis added.

²⁰ The letter concludes by noting that as an Asian country it would be easier for Japan to pursue its imperial ambitions in India unnoticed than a European country such that the "commercial footing" it was establishing would ultimately generate "political influence" (Ibid).

²¹ Ibid.

²² Though WWI was clearly an important moment that wrought important structural effects, it accelerated an ongoing process rather than constituted a break, as punctuated equilibrium models might suggest.

recognition of the direct contribution of Indian manufacturing industry to the war effort, particularly the railway lines produced by the Tata Iron and Steel Company which produced 1,500 miles of steel railway lines that was crucial to Allied victory in Mesopotamia (Markovits, 1985).

The Indian Industrial Commission

The Colonial Government set up the Indian Industrial Commission in recognition that “the time has come when the question of the expansion and development of Indian manufactures and industries should be taken up in a more comprehensive manner than has hitherto been apprehended” (Prakash, 1999:175). The commission began its work in 1916 with 10 members, of whom 4 were Indian, and issued its report in 1918.

The report highlighted two critical points: first, the state – and not solely the market – was responsible for industrialization in India and second, advancing industrialization required extensive application of technology (Prakash, 1999:176). The report embodies the emerging modernizing discourse. The “dispassionate” analysis began from the historical position that India, much as in Romesh Chunder Dutt’s *The Economic History of India*, was in fact ahead of Europe up until the dawn of the Industrial Revolution. The report begins with the following statement: ‘At a time when the west of Europe, the birthplace of the modern industrial system was inhabited by uncivilized tribes, India was famous for the wealth of her rulers and for *the high skill of her craftsmen*.’²³ However, consistent with European conceptions of the Enlightenment, the report cited a deviation in the economic and technological trajectories of Europe and India that occurred with the Industrial Revolution as the explanation of European advancement and Indian stagnation. The committee agreed that industrial progress depended on state intervention to provide the technical knowledge and expertise required for successful industrialization. It held that the colonial state could make up for the absence of the historical conditions that produced industrial advances elsewhere through the rigorous application of scientific knowledge. The report thus provided an important elaboration of a legitimate role for

²³ Report of the Indian Industrial Commission, 1916-1918, emphasis added. Also cited in Prakash (1999:176) and Chatterjee (1993). These views are also highly compatible with modernization theory.

state intervention in the economy to support domestic producers that preceded Jawaharlal Nehru's call for state-led industrialization in the 1930s that is the subject of the next chapter.²⁴ However, the source and rationale for the deviation was an immediate point of contention as it spoke directly to the issue of the suitability and capacities of Indian economic actors relative to their counterparts in Britain and elsewhere, most notably Japan as indicated in the previous section.

Committee member and prominent Congress Party nationalist Madan Mohan Malaviya prepared a dissenting note that accompanied the report. In his statement, Malaviya strongly disagreed with the historical explanation given by the majority of committee members of the divergent paths of Europe and India with the Industrial Revolution, as it suggested that Indians had less 'natural' capacity for industrial enterprise than Europeans. This position not only had crucial implications for the possibility of industrialization in India but also for the role of Indian economic actors as it signaled the efficacy of pursuing industrial development through foreign rather than domestic firms. This was a crucial point that nationalists fought against.

In my opinion this does not give a correct view of the matter...and is calculated to support **erroneous ideas** about **the natural capacity of Indians and Europeans for industrial enterprise**, and to stand in the way of the right conclusions being reached as to **the possibility of industrial development in India** with the co-operation of the Government and the people.²⁵

Malaviya's statement is another example of Indian actors taking a proactive role in their own cultural construction and legitimation. Malaviya strongly contested the imperial logic that naturalized European technological superiority. He offered a competing rationalized nationalist logic that India in fact was technologically superior since 3,000BCE. Malaviya substantiated his claims by citing historical texts and archaeological discoveries –reported by European scholars and hence deemed legitimate -- that Indian muslims dominated ancient Greek and Roman markets and were used to wrap Egyptian mummies, and that Marco Polo and Alexander the Great praised the excellent quality of

²⁴ However, there was disagreement on the particular organizational forms that state intervention should take, setting the stage for deepened colonialist-nationalist debates around the details of industrial policy and planning.

²⁵ *Report of the Indian Industrial Commission*, emphasis added. Also cited in Prakash (1999:188-9).

Indian iron goods. Malaviya argued “Though conquests after the 11th century hampered *the state of ‘Indian industrialists’* for a brief period, the foundation of the Mughal Empire and ‘the safety and security of the reign of Akbar seemed to have fully revived Indian industries and handicrafts.’”²⁶ The truly disastrous moment for Indian industry was the conquest of India by the East India Company “as British weavers expressed their deep jealousy of Indian weaver’s skill and moved the Company to use its newly-acquired power against indigenous industry.” The industrial revolution did not mark a mark a divergence; rather imperialism meant Britain *deindustrialized* India, destroying the livelihoods of its artisans and precipitating lost technical skills by converting it into a producer of agricultural resources to finance its own industrialization.²⁷ “This [logic], according to Malaviya, was the true explanation for the disparity in industrial development between Europe and India” (Ibid). This narrative of British de-industrialization was the very essence of nationalist economic drain theory that was the subject of the previous chapter. Contrary to colonial claims that the divergence was based on the Enlightenment, proving Europe’s natural superiority (how else to explain its occurrence in Europe and not elsewhere?) nationalists contended that there was in fact no divergence based on natural causes internal to Europe; instead Europe disrupted India’s own natural path to industrial development through the exploitative institutions of imperialism.

Much like the official report, the rationalized causal logic that Malaviya deployed prescribed a clear role for the state. The logic reflected the tight link between historically salient nationalist narratives and socially meaningful ‘technological imaginaries’ in the construction of development and modernity. The state would be necessary to allow

²⁶ Ibid, emphasis added to highlight the focus not just on Indian industry in the abstract, but on Indian economic actors, particularly emerging industrialists. This argument closely matches Mohandas Gandhi’s position on Indian handicraft industries, as is described in detail in the next chapter, albeit Gandhi focused on small-scale cottage industry while Malaviya’s interest was in the potential for Indian industrialists in large-scale more technology-intensive and sophisticated areas of production. The distinction between these two would become the main source of conflict between Nehru and Gandhi, and is the main subject of the next Chapter. It is also an interesting invocation of positive outcomes from Muslim rule under the Moghul leader Akbar on India’s pre-British Raj development in light of the Hindu-Muslim communal conflict that soon arose in the Indian subcontinent.

²⁷ This resonates very well with later arguments that were made in India and other developing countries within the broad frame of unequal exchange and dependency theory.

Indians to finally realize the potential of their natural inclinations towards technology and industry that had been disrupted by the British and create a modern industrial nation.²⁸ This was the path to economic growth, industrial employment and increased standards of living. Malaviya cited the role of the state as a technical institution in promoting technological catch-up and late development in Germany and Japan as evidence supporting the causal logic of state intervention, simultaneously paralleling the ‘modular nationalism’ (Anderson, 2006) that the first generation of Indian economic nationalists introduced in the 1870s and foreshadowing the scientific socialism that Jawaharlal Nehru would successfully deploy in the independence struggle of the 1930s.²⁹ These nationalist narratives and technological imaginaries were projected into elite policy debates and the wider public discourse, shaping the preferences of Indian colonial subjects towards the role of domestic and foreign capital in the societal modernization project.³⁰

Despite growing arguments for state support of indigenous industry, the colonial government felt compelled to strike a delicate balance between providing concessions to Indian capital without threatening dominant British commercial and industrial interests. On one hand, the state formally ignored the results of the report, but on the other, these arguments resulted in the provision of small degree of tariff protection for new industries, reflecting “the more vigorous industrial policy” that colonial authorities indicated in a 1915 dispatch to the Secretary of State in London “may assist Indian enterprises in some measure to meet competition from Japan”.³¹ While the specific tariff levels that were applied fell short of the levels requested by Indian businessmen, they were nevertheless beneficial to nascent Indian capitalists. For example, the imposition of this tariff protection was partly responsible for saving the most symbolically powerful indigenous

²⁸ This also foreshadows the debate on the role of the state in nationalist contestation between Nehru and Gandhi that is the focus of the next chapter.

²⁹ This “nationalist imagination” functioned “as a form of reinscription...Its ambition was to rewrite India and Indian interests...” (Prakash, 1999:179). Finally, “The conception of the state as the embodiment of the technological imperative earmarked a prominent role for science and scientists” (Prakash, 1999:191), a development that would become highly apparent in the 1930s as nationalist socialist-scientists entered the discourse.

³⁰ See Dobbin’s (2004:2) argument that economic modernization can be seen as a series of “societal projects”.

³¹ Secret letter, #6 of 1916, from GOI, Dept of Com & Ind, to Rt Hon Austen Chamberlain, Sect of State for Indian, Delhi 31 March 1916.

firm Tata Iron and Steel (TISCO) from bankruptcy in 1924 (Markovits, 1985:12). Further, while the cotton-textile industry, particularly in Bombay, continued to face increased competition from Japanese imports in the 1920s, Indian capital began to make inroads into other areas including jute, which had long been dominated by British capital in Calcutta, as well as new industries such as chemicals and food processing.³²

V. Indigenous Capitalist Collective Action

At the same time that colonial authorities and nationalist political actors were developing their positions towards indigenous capitalists, nascent Indian capitalist-industrialists were determining how to position themselves vis-à-vis the competing goals of imperialism and nationalism.³³ Indigenous capitalist collective action reflected these efforts of 'Indian economic man' to present himself as a legitimate economic actor and an instrument of the modernizing development project.³⁴ British firms were the first to organize at the national level through the Associated Chambers of Commerce of India (ASSOCHAM) in 1920, an organization that retained its foreign orientation well past independence.³⁵ Indian capitalists responded by forming indigenous business organizations through which they sought to establish their legitimacy as contributors to wider societal welfare and to

³² There were also important tensions that were rising between nationalist political actors and emerging Indian capitalists. While World War I provided indigenous industrialists with major growth opportunities, they were subjected to 'comprador' accusations of war-time profiteering and collaboration with the colonial regime. However, this view amongst many *swadeshi* nationalist actors existed alongside a recognition of the need for an indigenous capitalist class as a counterweight to British business, as was made clear from the 1912 Conference. Chapter 6 returns to this issue when discussing the relationship between nationalist political actors and Indian capitalists.

³³ Capitalist collective action itself influenced how Indian capitalists preferences were shaped through debates and information exchange. This process highlights elements of capitalist collective action that differ from public choice perspectives on business organization as the pooling of common material interests in order to seek rents (cf. Krueger, 1974; Olson 1981; Bhagwati, 1982) would suggest.

³⁴ The Calcutta Chamber of Commerce (later named the Bengal Chamber of Commerce) was the first organization of British capital and was formed in 1833 after the East India Company withdrew from commercial activity. The Bombay and Madras Chambers of Commerce were founded in 1836, and the three merged to form ASSOCHAM in 1920.

³⁵ British industrialists generally had close links to the colonial state facilitated by racial similarities and institutionalized through mingling in various members-only social clubs that were generally closed to Indians. Further, ASSOCHAM was based in Calcutta where the colonial government resided, while many of the most dynamic Indian businesses were located in the West in Bombay. Indian businessmen thus found themselves with relatively limited channels of access to influence bureaucrats in the colonial government. There were also important industry-level divides: for example, jute and tea production were dominated by British capital and concentrated in the East, while cotton and textile mills were largely Indian owned and located in the West.

press the Government of India for policy demands against the organized influence of foreign firms.

The first modern Indian indigenous organization was the Bombay Piecegoods Merchants' Association, with several other local and regional level organizations being formed in the decades that followed. Representatives of Indian business participated in the first Indian Industrial Conferences from 1905 onwards, and there were formal calls for cooperation between existing associations at the 1913 Conference. These efforts resulted in formation of the first national level association, the Indian Chamber of Commerce, which was later renamed the Federation of Indian Chambers of Commerce and Industry and is today one of India's leading representatives of Indian capital.

Indian business leaders made the objective of the national-level business organization clear from the outset. In his 1926 Presidential Address at the Inaugural Meeting of the Indian Chamber of Commerce in Calcutta, Anandji Haridas told his fellow capitalists: "We need to organize ourselves...[to assert] the contribution which the business classes are making to the civil and economic development of the country. To assert our rightful place in the public affairs...we must organize ourselves to a man."³⁶ These efforts at capitalist organization were not simply defensive moves; rising Indian capitalists were proactive about the need to create and project a particular conception of the role of 'native' capital in Indian economic life into public discourse. Crucially, they sought to contest dominant liberal economic theories and their implications for the balance of market power between foreign and domestic firms:

The idyllic school of economists...declare that **modern methods of large-scale commerce and large-scale industry are foreign to the Indian genus and culture.** Against the cumulative opposition from the various sources, the Indian businessman must

³⁶ Presidential Address, Inaugural Meeting, Indian Chamber of Commerce, 1926, ICC Annual Report, 1926 (NMML). This need to organize was not only driven by counterbalancing British capital; Haridas and his colleagues were also wary of the growing militancy of Indian labor. "The gentlemen from the labourite group...are...accentuating the cleavage between Indian capital and labor." Chapter 6 will briefly discuss the role of Indian labor in these emerging state-capital relations. NB: G.D. Birla (of the Marwari group Birla Bros. Ltd) was the inaugural president of the Indian Chamber of Commerce, not Anandji Haridas (of Anandji Haridas & Co.), who was Senior Vice President. Thus even though it was Haridas who delivered the Pres address on 30 Jan 1926, Birla it seems was away quite a bit with the report noting it missed his guidance for a good part of the year.

make their way. How else are they to achieve their success except by **perfect organization of their forces and resources?**³⁷

This inaugural meeting of the ICC “announced the emergence of ‘native commerce’ as a class”, as capital “personified with a consciousness and a will” (Birla, 2009:199). It marked an important shift in the social world of Indian capital, from ‘traditional’ organizational forms of the extended family and caste council, to ‘modern’ civic associations and corporate bodies incorporated under the legitimacy of formal legal institutions (Ibid:200). These organizations consolidated sets of emergent Indian capitalists that profited tremendously from cotton as well as jute, coal, cement and steel during the war.³⁸ However, despite their material success emergent capitalists were riddled with anxieties stemming from their ‘traditional’ image and tenuous relationships with British capital, the colonial state, national politicians and increasingly militant labor. They bore the cultural legacy of the speculative bazaar merchant embedded in closed kinship networks, which they sought to challenge by reinventing themselves as modern economic actors and representatives of elite Indian civil society.³⁹ They also appeared as comprador economic actors who had benefitted from wartime shortages through rapacious business practices and economic behaviors that generated massive profits at the expense of the poor and of the nationalist struggle.

³⁷ Ibid. G.D. Birla’s journal, the *Eastern Economist* would later refer to the “spurious claims [of] British financiers and pseudo academic economic theorists...that the influx of British capital into India...(led to) her material progress”. *Eastern Economist* August 20, 1943, p. 973, cited in Mukherjee, 2002:342, fn10.

³⁸ The ICC was the forerunner to FICCI, which was founded in 1927 and became the leading representative of Indian business interests. FICCI held protection of the indigenous cotton textile industry and export-friendly low exchange rate regime as its major platform, positions that would become the basis of Congress’ economic policy. However, I do not wish to overstate the power of FICCI in these relatively early days. Markovits (1985) and others argue that in its early days FICCI was a weak grouping of largely regional associations such as the Indian Merchants Association and the Ahmedabad and Bombay Mill owners Associations, which individually were more successful at engaging with the colonial state. Further, there were divisions within FICCI along a number of key lines including trade versus industry, with the former concerned about rural indebtedness, as well as a lack of consensus on the entry of foreign capital. Thus at this stage of Indian industrial development state-capital relations were primarily limited to exchanges between the British colonial state (which did not always follow the dictates of the Imperial government in London) and British capital, with colonial industrial policy reflecting the interests of these two groups, and generally excluding Indian capital and nationalist interests. Nevertheless this capitalist organization would rise in stature as India moved towards independence in the late 1930s and 1940s.

³⁹ This legacy would persist for decades, shaping how the new independent Indian state approached indigenous business during the import substituting industrialization period of the 1950s and 1960s, as well as how Indian capitalists engaged in contemporary debates on economic liberalization in the 1990s and 2000s as they continued to negotiate these historically rooted cultural categories.

In response to colonial and nationalist attempts to categorize and de-legitimize emerging Indian economic actors, Indian capitalists engaged in their own ‘culturalist-capitalist’ discourse. They sought to present themselves as spokesmen for ‘Indian genus and culture,’ and representatives of modernity, rationality and technical skill in market management and industrial development. Indian economic actors demonstrated significant agency in recognizing the nature of the discursive terrain in which they would have to engage and resisting the anti-modern cultural categories in which colonial actors sought to place them. Indian economic actors did so by providing information and expertise on trade and monetary policy through indigenous chambers of commerce, civic organizations and official bodies and by participating in state-sanctioned activities. Their aim was to challenge and reconfigure both the cultural categories of Indian economic man as well as the ‘scientific’ economic theories and logics that confined their socio-economic ambitions. Emerging capitalists rejected the notions that they were naturally unsuited to large-scale and industry due to their Indian cultural and intellectual attributes. This required the development and deployment of alternative economic logics and conceptions of technology that rationalized and legitimized their role as the key economic agents upon whom India’s industrial future depended, strategies that were increasingly employed as India moved towards independence as discussed in Chapter 6.

Cognitive and Cultural Categories of Capitalist Legitimacy (1914-1947)

<p>Illegitimate Indian economic actors</p> <p><i>Traditional:</i> Colonial and nationalist conceptions of Indian economic actors as ‘bazaar traders’, ‘speculators’ and comprador actors. Mode of capitalist organization is the ‘traditional’ extended family and caste council.</p>	<p>Legitimate Indian economic actors</p> <p><i>Modern:</i> Emerging Indian capitalists seek to legitimize themselves as modern spokesmen of Indian genus and culture who are representatives of modernity, rationality and technical skill in market management and industrial development.</p>
<p>Illegitimate foreign economic actors</p>	<p>Legitimate foreign economic actors</p>

Indian Business Actors’ Preferences towards Foreign Capital

Indian business actors began making demands to restrict foreign capital from this early stage. As Indian business increased its formal engagement in the policy domain, they contested the colonial logic that India needed foreign capital because of the alleged

scarcity and ‘shyness’ of indigenous capital. Colonial actors maintained that Indian capital preferred to remain in their ‘traditional’ accustomed areas of trade and stock market ‘share bazaar’ speculation rather than risk entry into ‘modern’ industrial development activities. This reluctance *rationalized and legitimized* the participation of foreign firms in Indian industrialization. This was not solely the position of colonial actors; Indian nationalist actors would make similar claims once they assumed state power after Independence.

In a dissenting note to the 1921-22 Government of India Fiscal Commission Report, a group of Indian business actors including G.D. Birla instead argued for supportive industrial policy claiming that their willingness to invest was ‘proved by the industrial activity which resulted from the indirect protection afforded by the war conditions’. At best, foreign capital was necessary ‘merely to supplement’ indigenous capital and hasten the pace of industrial development.⁴⁰ The group continued by arguing that free entry of foreign capital would lead to higher consumer prices and financial drain through profit repatriation, a logic that had salience in Indian nationalist Economic Drain Theory. They proposed the imposition of regulations on profit retention to channel foreign firm earnings to domestic reinvestment, mandates on the inclusion of Indians as board directorates and preferences towards Indian shareholders including the extension of share subscription periods to 30 days to help ensure that Indian subscribers could acquire up to 50% share ownership of newly floated joint stock companies. They also demanded the reservation of key industries for Indian business, including natural resource extraction, shipping and banking.⁴¹ This list expanded in the 1930s to include established areas such as railways and new fields such as automobiles and civil aviation.

Emergent Indian capitalists also sought to legitimize themselves in the eyes of the nationalist movement. In his 1928 FICCI Presidential speech, Purshotamdas Thakurdas

⁴⁰ *Indian Fiscal Commission Report*, 1921-22, Minute of Dissent, para. 50 cited in Mukherjee, 2002:365.

⁴¹ For example, Indian business proposed restricting internal trade financing -- estimated to be 15 times greater than foreign trade finance -- to Indian banks. Similarly, 75% of share capital was to be reserved for Indians in the field of civil aviation. Indians at this point were well established in areas such as cement, cotton, heavy chemicals, iron and steel. *Indian Fiscal Commission Report*, 1921-22, Minute of Dissent, paragraphs, 48, 52, 53; cited in Mukerjee (2002).

proclaimed: 'Indian commerce and industry are intimately associated with and are, indeed, an integral part of the national movement, growing with its growth and strengthening with its strength...[they cannot therefore] make terms with one or the other (foreign government or foreign commercial interests) at the expense of national interests.'⁴² These legitimating efforts by formal bodies of organized Indian capitalists signaled their full arrival in the contested Indian policy domain. In same speech Thakurdas also asserted nationalist claims to the Indian economy, arguing that 'Indian commercial interests have a right to the predominant share of commerce and industry in India just as the British do in Britain.' In 1929, as policy discussions towards greater political autonomy progressed, the FICCI Executive Committee continued to press the issues, arguing that 'there could be no self-government in India if she was to be denied the power to devise and follow a national economic policy including the right, if her interests required it, of making economic discrimination against non-national interests'.⁴³

These claims on behalf of the Indian business class were complemented by the efforts of individual members of India's rising industrialist class. Walchand Hirachand, Chairman of the Scindia Steam Navigation Company and the leader of efforts to re-establish Indian shipping in the 20th century called for greater support for Indian shipping, which at the time only controlled 15% of coastal trade and 2% of overseas trade. Hirachand's demands generated a strong response from the shipping magnate James Mackay, Earl of Inchcape and Chairman of the British shipping monopoly P&O Steam Navigation Company, who complained to the Indian Secretary of State Lord Birkenhead of the 'monstrous' and 'outrageous' attempts of Indian capital to 'expropriate' them.⁴⁴ These sentiments prompted the 1927 Simon Commission to propose constitutional safeguards to protect British capital, which were later formalized in the 1935 Government of India Act. A few years later, Hirachand -- who would later launch one of India's first automobile companies Premier Automobiles -- declared in a bout of confidence 'that India would not require foreign capital if the administration was placed in the hands of the best of her


⁴² Presidential Speech, FICCI Annual Report, 1928, p.4; See also FICCI Annual Report, 1942, p.161-2. Cited in Mukherjee (2002)

⁴³ FICCI Proceedings of the Executive Committee, 1929, p.7; FICCI Annual Report, 1930, p.150.

⁴⁴ Letter from the Earl of Inchcape to the Indian Secretary of State Lord Birkenhead, September 16 1928, cited in Mukherjee (2002).

nationals.’ Given India’s resources, if the country ‘allowed to develop on right national lines... [India would] present a picture of industrialization unknown in the annals of industrial development of the world and that too with the help of purely Indian capital.’⁴⁵ Thus by the early 1930s there are increasingly confident assertions of the role of the emerging Indian capitalist class in the policy discourse.

Cognitive and Cultural Categories of Capitalist Legitimacy (1914-1947)

Illegitimate Indian economic actors <i>Traditional:</i> <i>Colonial and nationalist conceptions of Indian economic actors as ‘bazaar traders’ and ‘speculators’. Emerging Indian capital as ‘comprador’</i>		Legitimate Indian economic actors <i>Modern:</i> <i>Emerging Indian capitalists seek to legitimize themselves as modern ‘Captains of Industry’ and champions and instruments of India’s development ambitions.</i>
Illegitimate foreign economic actors <i>‘Traditional’</i> <i>Foreign capital as neo-imperial.</i>		Legitimate foreign economic actors

VI. Conclusion

This chapter described the emergence of Indian capitalists and the cultural construction of Indian Economic Man in the early 20th century. The analysis considered the relationship between colonial, nationalist and indigenous capitalist actors through the binary cultural categories of ‘traditional’ and ‘modern’ that modernizing nationalist and imperial actors created. It offered an alternative approach to understanding ‘culture’ in the field of political economy – focusing on the construction of cultural categories and the regulatory and distributive implications for nascent Indian capitalists -- while providing insight to the emergence of indigenous capitalist political actors in the field of industrial development. Indian capital was haunted by the specter of the ragged bazaar merchant and sought to project an image as modern ‘captains of industry’ who represented the development aspirations of an ambitious soon-to-be independent nation-state. They demonstrated significant agency by refusing to submit to the marginalizing cultural categories that colonial and nationalist actors created by engaging in attempts to strategically navigate the cultural discursive environment and establish their legitimacy.

⁴⁵ FICCI Proceedings of the Executive Committee, 1932, cited in Mukerjee 2002:365.

The importance of the cultural reconstruction of the Indian capitalist class as a means of achieving their political-economic objectives cannot be overstated. Their efforts had an intimate yet complex relationship with rising nationalism. On one hand they were strengthened by nationalist agitations against the Raj, particularly through causal logics such as Malaviya's that critiqued colonial positions by highlighting Indians' 'natural' tendencies to industry. However, there were deep-lying tensions between nationalists and capitalists over the alignment of their objectives: whether capitalists' successes were broadly shared. Mukherjee (2002: 71-2) argues that capitalists "were aware that bourgeois ideological hegemony in the anti-imperialist struggle was to be maintained not by simply buying up, manipulating or pressurizing the nationalist leaders, but by trying to successfully project its own class needs or interests as representing the societal interest or the interest of the nation," a view that has its roots in Marx.⁴⁶ Indian capitalists were careful not to be thought of as advancing their "own narrow class interest" or placing those considerations "before nation." Rather, they wished to be "seen as speaking in the interest of the Indian nation" (Ibid; see also Dobbin 2004).⁴⁷ This is central to how many economic sociologists, following Marx, understand power: "Karl Marx defined power not merely as coercion, but as the ability to shape how others view the world and their own interests. From the dawn of capitalism, successful entrepreneurs and managers have defined economic conventions by proselytizing, telling the world that the best way to run a business [or the economy] is their way. Success itself gives these people the authority [and legitimacy] to define what rational behavior is" (Dobbin, 2004:2). Thus we can understand the efforts of nascent Indian capitalists much like William Roy (1997) presented their American industrialist counterparts at the turn of the century -- almost the

⁴⁶ In *The German Ideology*, Marx claimed 'For each new class which puts itself in the places of one ruling before it, is compelled, merely in order to carry through its aim, to represent its interests as the common interest of all the members of society, that is, expressed in ideal form: it has to give its ideas the form of universality, and represent them as the only rational, universally valid ones. The class making a revolution appears from the very start, if only because it is opposed to a *class*, not as a class, but as the representative of the whole of society, it appears as the whole mass of society confronting the one ruling class.' *The German Ideology*, Moscow, 1964, pp. 61-2.

⁴⁷ He goes on to suggest that "this projecting of a class interest as the national interest was not achieved through manipulation, but by establishing a genuine coalescence of the two" by identifying areas where there was "genuine unity of interests between the national bourgeoisie and the rest of society", as in oppression by imperialism and feudalism.

same moment in time if not quite the same stage of capitalist industrial development. Indian capitalists also wished to convince others that Indian firms were at least as capable – if not more so – than their British counterparts to be the vehicle through which the soon-to-be-independent nation would achieve its development aspirations.

The next chapter analyzes the fractures that developed in what to this point had been a relatively consensual understanding of Indian economic nationalism, as two new sets of nationalist cultural schemas emerged to challenge the imperial development orthodoxy and compete with each other over the economic direction that the soon-to-be independent India state would take. It analyzes the construction of the nationalist cultural schemas of ‘Gandhian’ moral philosophy and Nehruvian ‘scientific socialism,’ and the internal debates that ensued amongst competing nationalist actors in the 1920s and 1930s. This nationalist contestation centered on competing economic theories and conceptions of technology that provided the principal tools with which twentieth century Indian nationalists contested colonial power as they approached independence in 1947, while establishing the critical historical antecedents of post-independence policymaking. Indigenous capitalists also took advantage of fractures that arose in Indian nationalism between Gandhian and Nehruvian socialist-scientific systems of thought described in the next chapter to develop and project alternative conceptions of themselves and their role in Indian industrialization into the public sphere. These are described in Chapter Six by showing how Indian industrialists co-opted meaningful tropes that played on nationalist anxieties, particularly about foreign firm dominance and the idea that Indian industry would be a subordinate ‘junior partner’ to British firms.

CHAPTER 5

Contesting Modernity Amidst Global Uncertainty: Competing Visions of India's Future and the Social Meaning of Development

I. Introduction

This chapter builds on the analysis in Chapter Three, which described the emergence of a relatively cohesive Indian economic nationalism organized around imperial resistance and economic drain theory in the late 19th century. This first wave of nationalist frustrations with colonial rule exploded in the *swadeshi* movement and boycotts of British manufactured goods around the turn of the century. Chapter Four revealed how these nationalist agitations precipitated formal interactions between the Indian National Congress and colonial authorities as the latter sought to address nationalist grievances, particularly around indigenous industrialization. In particular, it revealed the emerging categories of capitalist legitimacy focused on the construction of 'Indian Economic Man'.

While political contestation in the period leading up to the First World War occurred firmly across a nationalist-imperialist divide, this chapter analyzes the fractures that emerged amongst nationalist elites during the inter-war period in what had been a relatively consensual understanding of Indian economic nationalism. This contestation over the content of Indian economic nationalism was informed by competing economic theories and conceptions of technology, and is crucial for understanding the policy direction of the soon-to-be independent India. The chapter thus identifies critical historical antecedents of post-independence policymaking in late colonial development debates as two new sets of nationalist cognitive and cultural schemas emerged to challenge the imperial development orthodoxy.¹ These schemas, broadly associated with

¹ In this chapter the Nehruvian and Gandhian systems of meaning and thought operate at a high level, akin to the concept of 'policy paradigms' in the political science and sociology literatures (Hall, 1993; Fourcade-Gourinchas and Babb, 2002). However, as argued in the previous chapters it emphasizes both cognitive *and* cultural dimensions, seeing these systems as comprising rationalized causal ideas imbued with historically salient social meaning. These are systems of meaning and thought through which actors make sense of their social and economic worlds. They provide actors with insights in how society and economy should *and* actually does operate; that is, it has both normative and positive connotations (cf. Sewell, 1992; Wedeen, 2002; Dobbin, 2004; Adalal et al, 2005,2010). Cognitive and cultural schemas allow actors to understand causal relationships in the world and ascribe meaning to them, which in turn motivates action. Schemas are thus akin to 'scripts' (cf. Dobbin 2004) but without the lack of agency that the concept of cultural scripts implies in both the 'old' sociological institutionalism and more recently the

Mohandas Gandhi's moral philosophy and Jawaharlal Nehru's scientific socialism, constituted the principal tools with which twentieth century Indian nationalists contested colonial power as they approached independence in 1947. This contestation was a deeply social and cultural process, with competing schemas designed to fit with particular constructions of the Indian historical memory (cf. Abdelal, 2001). These schemas imbued the concepts of industrialization and development with specific albeit competing social meanings, first to challenge imperial system of thought based on classical political economy, and then increasingly turning to internal contestation as the Indian National Congress moved closer to gaining state control.² These schemas were different despite the fact that similarly situated nationalist elite actors responsible observed the same material conditions, demonstrating the variation in interpretative frames through which actors make sense of their material environment. This highlights the crucial importance of culture and social meaning in the battle of ideas, a dimension that is often downplayed or ignored in the literature on the role of ideas from across different strands of the new institutionalisms in political science and economics (Goldstein and Keohane, 1993; North, 2005; Hall, 1993; Blyth, 1997; Blyth, 2002; Beland and Cox, 2011; but see Dobbin, 1993 and Campbell, 1988).

The rest of the chapter analyzes the construction of the nationalist cultural categories of 'Gandhian' and 'scientific-socialist' and the internal debates that ensued amongst competing nationalist actors. The chapter is organized as follows. The next section describes the fracturing of the previously cohesive content of Indian economic nationalism through the rise of its two most important figures, Mohandas Gandhi and Jawaharlal Nehru. It analyzes the influences and motivations behind the development of

new institutional economics (North, 2005; Greif, 2006). They allow enable significant agency as actors strategically deploy causal ideas (Blyth, 2001) along with cultural symbols, narratives and tropes (Swidler, 1986) in the realm of political and market contestation.

² Crucially, the cultural meaning systems and discursive frameworks that emerged from this period of contestation lasted through the import substituting industrialization period of the 1950s and 1960s, and still resonate during the more recent economic liberalization of the 1980s, 1990s and 2000s. Further, the protagonists who debated the normative and positive (ethical and technical) elements of development became the policymakers of the 1950s, and the language they deployed retained political salience for policymakers of the 1990s and 2000s. Similarly, the many of the leading indigenous capitalists of this period were also the managers of the 1950s. Thus these debates shaped both government policy and firm strategy of the post-independence period.

their competing systems of meaning and thought during the 1920s. Section III assesses the effects of the massive uncertainty generated by structural disruptions in the global political economy in the early 1930s -- the Great Depression and collapse of the imperial economy that rested on the liberal tenets of classical political economy -- on nationalist debates on the meaning of development and modernity. Section IV narrows the focus to contestation between Gandhian and Nehruvian systems, highlighting the agency and creativity that these actors deployed in constructing politically salient systems of meaning as they dueled for control of the political domain. Section V analyzes the discourse in the Indian National Congress' National Planning Committee, the first step towards national economic policymaking. Section VI concludes with a brief summary and introduction of the next chapter, which turns to emerging state-capital relations and deepening consideration of the role of foreign capital in India's industrial development in the post-independence period.

II. Gandhi and Nehru: Fathers of the Modern Indian Nation

Jawaharlal Nehru and Mohandas Gandhi are the fathers of the modern Indian nation. Together they exemplified the efforts of Indian strategic actors to create new content of twentieth century Indian nationalism and imbue it with cultural meaning and social purpose (cf. Abdelal, 2001). Nehru and Gandhi recast modernity according to their own visions of India's future and created cultural schemas that galvanized the emerging state. However, they represented contrasting conceptions of nationalism: Gandhian nationalism was rooted in his moral authority, mobilizing appeal, and romanticized conception of the purity of 'traditional' village life while Nehruvian nationalism comprised a 'modernist' vision of state control of technology-intensive large-scale industry that harnessed science in the pursuit of cultural progress and material prosperity. The rest of this section describes the origins, influences and evolution of Gandhi's moral philosophy and Nehru's 'scientific-socialism', which provided the competing content in Indian nationalist thought as India moved towards independence.

Mohandas Gandhi

The name Mohandas Gandhi is synonymous with Indian nationalism. Gandhi was the preeminent moral and political leader of the Indian nationalist movement and became an inspirational figure for independence struggles and civil rights movements elsewhere in the developing and industrialized world. Gandhi was born in 1869 and was raised in a Gujarati *bania* (merchant-trading) community. His father was a colonial bureaucrat in the period immediately following the 1858 takeover of the colony by the British Crown from the East India Company, and Gandhi himself was educated in England, receiving a law degree from the University College London. After a short career in law in India he took a position with an Indian firm in South Africa where he remained for 21 years from 1893-1914. Gandhi's political beliefs were forged during his tenure in South Africa. Gandhi had few prior political inclinations, but his philosophical beliefs and political activism were sparked by the discrimination that he and other Indians living in the country faced at the hands of Europeans under British colonial rule.

Gandhi returned to India from South Africa on January 9, 1915 and immediately undertook a two-year tour of the country. He was deeply affected by the poverty and squalor that he encountered. India had been wracked by multiple famines that killed millions over the decades since the British took over direct administration of the colony from the East India Company in 1858, and the depravation -- particularly in the villages of rural India -- was apparent. He was appalled by the effects of British imperialism on Indian agriculture and was deeply disturbed by the collapse of India's traditional handicrafts industry. Gandhi saw the process of artisans being forced into agriculture as reflecting the transformation of India as a land of balance between industry and agriculture to an "agricultural colony", much like Chapter 3 showed early nationalists like Romesh Chunder Dutt elaborated in *The Economic History of India*. Like the generation of nationalists before him, Gandhi attributed this degradation to the "satanic system" of British Imperialism and the imposition of free trade, albeit a manifestation of 'free trade' that promoted commodity exports from India, imposed heavy tariffs on Indian manufactures in the UK, extracted trade secrets from Indian artisans and conferred special privileges to British capital in India. This reflected a shift from a sympathetic

view that Gandhi held towards benevolent British colonial rule even as he fought for Indian rights in South Africa -- a view of colonial munificence that the British themselves had long sought to portray in England and overseas -- to the strident anti-imperialism that would dominate his speeches and writings.

Gandhi's system of thought was predicated on establishing a uniquely Indian philosophy. It developed in three distinct phases: up to 1919, 1919-1934 and 1934-1948. The first was captured by his famous publication *Hind Swaraj* (Indian Home Rule) in 1909, which developed a wholesale critique and rejection of Western materialism, machinery and modes of production and advocated non-violent resistance to imperialism. The second was the period when Gandhi went from individual activist to leader of the Indian National Congress. This was the period when Gandhian thought enjoyed relatively uncontested dominance in the nationalist political domain. The third entailed a 'practical' program of economic and productive decentralization through village-based organizations during the period of heightened contestation with Nehruvian scientific-socialism and Gandhi's gradual withdrawal from formal Congress politics (Misra, 1995:4).

Gandhi's claim to an authentic 'Indianness' rested on his argument that India had long been intellectually, morally, culturally and technologically superior to the West and so had little to gain from 'Western modernity'. Gandhi's philosophy was based on the purity of a pre-colonial utopia characterized by harmonious relations of pre-industrial production. This normative conception of a non-industrial society underpinned his positive economic program of village-based cottage industry. His invocation of the 'true' India was laced with historical meaning and was a central strategic element of his political appeal. However, much like his nationalist predecessors Dadabhai Naoroji and Justice Govind Randade developed a 'modular nationalism' by strategically borrowing from Alexander Hamilton and Friedrich List to create a system of thought in opposition to the West, Gandhi was also influenced by 19th century Western thinkers such as John

Ruskin (1819-1900), David Thoreau (1817-1862) and Leo Tolstoy (1828-1910).³ Gandhi exhibited significant agency in creatively combining cultural schemas from foreign and indigenous sources (cf. Sewell, 1992, Wedeen, 2002; Fligstein, 2008).

Gandhi's capacity for agency and 'social skill'⁴ was facilitated by the resources he could access given the social positioning from his traditional Gujarati *bania* upbringing, Western education in London and experience in South Africa as an advocate for oppressed Indian migrants. These social, cultural, material and intellectual resources allowed him to successfully empathize and communicate with groups as diverse as Indian capitalists, colonial actors and poor rural villagers.⁵ Indeed, a strength of Gandhianism were the malleable meanings embedded in his system of thought that were amenable to multiple interpretations for different audiences, whether "the Gorakhpur peasantry, Marwari businessmen, or militant Chitpavan Brahmins" (Zachariah, 2005:161). Gandhi could switch from a "religious idiom" to a "secular humanist" idiom to an idiom of "scientific expertise" depending on the need. He "...was prone to asking advice on the

³ Gandhi describes how the impact of Tolstoy's ideas of 'bodily/bread labor' and 'intellectual food' in "creating the moral and social atmosphere for the realization of the fullness of man" influenced his philosophical position while revealing that "Thoreau furnished me through his essay on the 'Duty of Civil Disobedience' with a scientific confirmation of what I was doing in South Africa." Thoreau was influential in the development of his core principles of morally justified non-cooperation -- the hallmark of Gandhian political resistance -- and decentralization of political and economic power, which shaped his economic program of action. Gandhi further invoked Western thinkers to address criticisms of the consistency of his positions and their evolution over time. Citing Tolstoy and Emerson, Gandhi claimed "Much has often been sought to be made of the so-called inconsistencies of Tolstoy's life but there were more apparent than real. Constant development is the law of life and a man who always tries to maintain his dogma in order to appear consistent drives himself into false position. That is why Emerson said that foolish consistency was the hobgoblin of little minds. Tolstoy's so-called inconsistencies were a sign of his development and his passionate regard for the truth. He often seemed inconsistent because he was consistently outgrowing his own doctrines" (Misra, 1995:11, citing Gandhi in *All Men are Brothers*).

⁴ Fligstein (2008) invokes this concept to critique new institutional theories and explain the role of agency and institutional change in his theory of fields, defining it as the ability to induce cooperation in others. "social skill, [is] defined as the ability of actors to induce cooperation in other actors in order to produce, contest, or reproduce a given set of rules (Fligstein, 1997; Fligstein and McAdam, 1994, 2011; Joas, 1996). The skill required to induce cooperation is to imaginatively identify with the mental states of others in order to find collective meanings that motivate other actors. Social skill entails utilizing a set of methods to induce cooperation from one's own group and other groups (Fligstein, 1997). Skilled social actors interpret the actions of others in the field, and on the basis of the position of their group, use their perception of current opportunities or constraints, to attain cooperation." Fligstein (1998:11). This is also akin to Schmidt's (2008) 'background ideational abilities' and 'foreground discursive abilities' in the elaboration of discursive institutionalism.

⁵ As argued in Chapter Two and illustrated in Chapter Three, social positioning is important as it provides actors with access to material and cultural resources, though it is not determinate as suggested in overly structural theories.

technical aspects of economic problems from businessmen before writing articles in which they would appear transformed into his characteristic style of presenting ethical dilemmas” (Ibid). Gandhi’s capacity to strategically deploy these resources underpinned his broad appeal and the establishment of his system of meaning and thought as the dominant strand of nationalism in India. Gandhi’s ability to connect with a broad range of actors with diverse interests coupled with his capacity to strategically appropriate arguments of his opponents was central to his attempts to construct and project his own view of modernity. His actions illustrate the analytic importance of agency in understanding the construction of the cognitive and cultural schemas that shaped policy and political action in late colonial India.⁶

Gandhi and the Indian National Congress

Gandhi joined the Indian National Congress, then under the leadership of the moderate Gopal Krishna Gokhale who advocated carrying out the Congress’ nationalist agitations within the colonial system. Gandhi transformed the Indian National Congress from an exclusive group of the narrow urban educated elite to a mass political party. He brought a new militancy and organizational capacity from his experience in South Africa to energize Congress political activism and challenge the colonial authorities. Gandhi began organizing mass acts of civil disobedience at the end of his two-year tour in 1917 over a variety of social and economic injustices suffered by Indian colonial subjects. The response was tremendous and the resistance spread rapidly across the colonial territory. This represented a new tactic that differed from earlier Congress approach based on elite engagement with colonial authorities and the Raj reacted with alarm. Tensions increased as more demonstrations were held and ultimately exploded with the April 1919 Jallianwala Bagh Massacre where British troops fired on protesters killing hundreds of unarmed civilians. This marked an important moment in Gandhi’s political development. The incident shocked him, transforming his long-held view of Britain as a benevolent colonial ruler with whom nationalists could work, and leading him to tell the 1920 special session of Congress “The British Government was the Satan with whom no cooperation was possible” (cited in Misra, 1995:9).

⁶ See also Schmidt (2008) for a complementary argument on discursive institutionalism.

The 1920 Congress annual meeting marked the beginning of the Gandhian period of Congress politics as Gandhi became president of the organization. It saw an 'Indianization' of the Congress that entailed greater participation by lower middle class members in the leadership organization structure and direct engagement with the masses. These changes were signified by the replacement of English with Hindi and other regional languages at Congress meetings and the adoption of Indian rather than Western clothing made of the signature home spun 'khadi' cotton. Khadi became an exceptionally potent cultural symbol of the Gandhian technological imaginary of traditional village-based technical expertise that was counterposed against mill-based production, whether from factories in Lancashire or Bombay. In fact, khadi cloth retains its political significance as a style of dress today. Most importantly, these changes saw heightened political agitations against the Raj as Gandhi organized the famous Non-cooperation Movement, a major act of civil disobedience based on non-violence and *swadeshi* boycotts of British manufactured goods.⁷

Gandhi's philosophical teachings and political activism proceeded hand-in-hand. Gandhian economic thought had "precedents in the [turn of the century] *swadeshi* movement" and became a "political weapon against the economic domination of Lancashire" just as his civil disobedience was a strike against colonial rule (Zachariah, 2005:157). He created a cohesive system of meaning and thought with political, economic and moral dimensions. It was based on a decentralized village-based economic order, self-sufficiency through small-scale agriculture and cottage industries employing traditional technologies, knowledge forms and production techniques that India's skilled artisans had successfully employed for generations before the onset of British rule. Gandhi's village experiment centered on attempts at reviving village craft industries thought to be 'lost' or 'destroyed' by the liberal economic and trade policies of British colonial rule as well as promoting agro-processing activities to link peasant food

⁷ The non-cooperation movement began in September 1920 and continued until February 1922. It was opposed by many senior members of the INC but was supported by younger members including Nehru. It was ultimately suspended by Gandhi due to the outbreak of violence in the Chauri-Chaura incident. Despite his curtailment of the non-cooperation movement Gandhi was imprisoned by the British in 1922 on the charge of publishing seditious materials.

production with industrial development. Gandhianism dominated nationalist politics through the 1920s, but it came under challenge towards the end of the decade by a younger generation of ‘scientific socialist’⁸ political actors within the nationalist elite, of which Jawaharlal Nehru was the most prominent and important representative.

Jawaharlal Nehru

Nehru was born and raised in an extremely prominent and politically well-connected family. His great-grandfather Lakshmi Narayan was an established lawyer in the Mughal Court in Delhi in the early 1800s and his father, Motilal Nehru, trained as an attorney at the University of Cambridge and was twice President of the Indian National Congress in 1919 and 1928.⁹ As a small child, Nehru was privy to family conversations in which commonplace acts of discrimination and violence suffered at the hands of the British were angrily recounted. Nehru recalls being “filled with resentment against the alien rulers of my country who misbehaved in this manner, and whenever an Indian hit back I was glad.” However, he also added “Much as I began to resent the presence and behaviour of the alien rulers, I had no feeling whatever, so far as I can remember, against individual Englishmen. I had had English governesses and occasionally I saw English friends of my father’s visiting him. In my heart I rather admired the English” (Nehru, 1941:20-1). The complexities and contradictions of these childhood experiences are evident in the balance that Nehru – who would become the consummate internationalist – would later seek to strike between India and the West as he developed his own system of meaning and thought.

Like his father, Nehru went to England and studied natural sciences and law at Cambridge. His professional and political career began with his return to India in 1912,

⁸ The term ‘scientific socialist’ was coined by Friedrich Engels, and refers to empirical application of Marxian theory, especially linking philosophy, economics and science in pursuit of development.

⁹ The political importance of this family cannot be overemphasized, as the Nehru-Gandhi family continues to dominate Indian politics after almost a century. Jawaharlal Nehru was the first Prime Minister of India, his daughter Indira married Feroze Gandhi and after her father’s death became India’s third Prime Minister. Indira’s son Rajiv became the sixth Prime Minister after his mother was killed and after his assassination his Italian-born wife Sonia Gandhi was convinced by Congress leadership to assume the Presidency of the Indian National Congress Party, which she has retained for over a decade as her eldest son Rahul Gandhi is groomed for certain Congress leadership.

three years before Gandhi's return from South Africa. He began practicing law, joined the High Court and attended the annual meeting of Indian National Congress. This was the period of increasing formal interactions, exchanges and cooperation between Congress elites and colonial representatives. This was the same session that ran parallel to the 1912 Indian Industrial Conference analyzed in the previous chapter where nationalist and colonial actors contemplated the state of 'Indian Economic Man', constructing the cultural categories that prescribed the appropriate role of indigenous capital in Indian industrial development and regulated the behavior of emerging Indian industrialists (as depicted in the table below).

Colonial Cognitive and Cultural Categories of Capitalist Legitimacy in India (~1912)

<p>Illegitimate Indian economic actors <i>Traditional: Colonial and nationalist conceptions of Indian economic actors as 'bazaar traders and speculators'. Trapped in ties of caste and kin. No economic ambition, only longing for Nirvana</i></p>	<p>Legitimate Indian economic actors <i>Modern: potential 'Captains of Industry'</i></p>
<p>Illegitimate foreign economic actors <i>'Traditional' Western Economic Man stern and determined, with hardly any heart and feelings; bent on making profits</i></p>	<p>Legitimate foreign economic actors <i>'Modern' Western Economic Man of the West depicted with a 'kindly face indicating benevolent intentions. Akin to Andrew Carnegies 'Trustees'.</i></p>

Despite his own elite education and self-described "bourgeois background", Nehru was unimpressed with the Congress, later reflecting "It was very much an English-knowing upper class affair where morning coats and well-pressed trousers were greatly in evidence. Essentially it was a social gathering with no political excitement or tension" (Nehru 1962:27).¹⁰ Nehru had little patience for this pleasant fraternization. He was deeply disturbed by India's material poverty and cultural and intellectual decline, particularly given Europe's post-Enlightenment advancement in these areas and like Gandhi he held the British responsible. Nehru had no confidence in the leadership of the national movement to effect a reversal of India's material and cultural collapse,

¹⁰ Nehru's disappointment with the Congress elite recalls British attempts to create Indian westernized elite infamously captured in Macaulay's *Minute on Western Education* that aimed "to form a class who may be interpreters between us and the millions whom we govern; a class of persons, Indian in blood and colour but English in taste, in morals, in opinion and in intellect." Nehru clearly was not impressed by what might be seen as the successful outcome of Macaulay's Minute.

particularly given their complete disconnection from the people of India. He bitterly lamented that “All these people lived a world apart, cut off from the masses and even the lower middle class. Politics was confined to this upper strata” (Ibid). He saw the political discourse as centered on the concerns of the powerful -- *zamindari* landlords, native Princes, capitalists and the Raj -- and his “continual criticism of the politics of talk and...insistent demand for action” had little effect on the Congress leadership (Nehru 1962:29,34). Thus when Gandhi arrived in India and radically transformed the Congress through engagement with the masses, Nehru was immediately drawn to him, even though the roots of future differences in their positions were evident from the outset.

Gandhi’s moral authority and capacity for political mobilization was an inspiration. Nehru was one of Gandhi’s strongest supporters when he launched the non-cooperation movement in 1920 over the objections of more moderate figures in the Congress. This anti-imperialist action predicated on mass participation had massive appeal to Nehru. He was electrified by Gandhi’s activism, but less taken with his economic position that idealized pre-colonial village life and called for a return to India’s ‘traditional’ pre-industrial roots. However, Nehru was still quite young, and his own economic and political philosophies had yet to be developed during his early Congress years. Nehru’s views generally fit with prevailing elite nationalist thought rooted in 19th century theories of Naoroji and Dutt, albeit somewhat uneasily given his dissatisfactions with the current Congress leadership. Nehru recalled that “It was all nationalism and patriotism and I was a pure nationalist, my vague socialist ideas of college days having sunk into the background” (Nehru 1962:35). However, he was inspired by anti-British action in Ireland, later reflecting that “fresh reading was again stirring the embers of socialist ideas” but “They were vague ideas, more humanitarian and utopian [a likely reflection of his liberal humanist training from childhood] than scientific” (Nehru 1962:35). His primary influence was the humanitarian socialism and anti-imperialism of Bertrand Russell, but “he had made no study of economic and land problems, and had no economic ideology to share” (Mishra, 1988:36). Nehru’s time during this Gandhian period was spent working ‘on the ground’ and seeing firsthand the degradation of poverty and village life, while rising in the ranks of Congress leadership, becoming General

Secretary in 1923 and again in 1927. Nevertheless his dissatisfaction with the prevailing liberal imperial as well as 'traditional' Gandhian systems of thought left him in continual search of an alternate intellectual avenues through which to make sense of the Indian situation and to chart new paths of economic thought and political action.

All of this changed when Nehru made his first return to England in 1926. Nehru found an entirely different situation with the rise of socialism and anti-imperialism amidst clear signs of British imperial decline. This was a period of heightened engagement between nationalist agitators from the colonies and European metropolises. In contrast to the period of 1870-1900 when the first generations of Indian nationalists took inspiration from European nationalism by reading newspapers, journals and books, the 1920s saw face-to-face meetings and discussions between European leftists and nationalist actors from the colonized territories. These interactions present a different view of the circulation of ideas than the unidirectional assumptions of the 'world society' literature (Meyer et al, 1997). Nehru represented the Indian National Congress at the Congress of Oppressed Nationalities in Brussels and met many European socialists and communists as well as nationalists from Asia and Africa, including Indian political actors based outside of the country. He then travelled to Russia, where he was deeply impressed by the radical socio-economic changes that had been wrought by the October 1917 Revolution and subsequent socialist economic planning.

Nehru returned to India invigorated with new ideas and purpose. His experience provided a new interpretive lens for understanding India's situation, equipping with him fresh causal ideas, explanations and solutions to the problems he had been grappling with for the past 15 years. His interpretation of Russia's socialist experiment provided the content for a new Indian nationalism. Indeed, his very first article, published in *The Hindu* on April 3, 1928, was aptly entitled 'Fascination of Russia'. The article revealed the first formulations of Nehru's emerging conviction that the Russian Revolution would help India find solutions to its own problems given their similar conditions. Nehru's future path is easily discerned. He began with a critique of nationalist positions rooted in the past – a direct reference to Gandhian philosophy that romanticized pre-industrial

elements of India's economic history – and then continued by expounding the wondrous effects of Russia's industrial accomplishments on education and poverty of the masses.

...the past is dead and gone and our immortal civilization does not help us greatly in solving the problems of today. If we desire to solve these problems, we shall have to venture forth along new avenues of thought and search for new methods. The world changes and the truths of yesterday and the day before may be singularly inapplicable today...Russia thus interests us because it may help us to find some new solution for the great problems which face the world today. It interests us specially because conditions there have not been, and not even now, very dissimilar to conditions in India. Both are vast agricultural countries with only the beginnings of industrialization, and both have to face poverty and illiteracy. If Russia finds a satisfactory solution for these, our won in India is made easier (Jawaharlal Nehru, 'Fascination of Russia', in *The Hindu*, April 3, 1928 cited in Mishra, 1988:40).

"Nehru's conversation to scientific socialism was complete" (Mishra, 1988:40). He was re-energized and began to formulate a coherent system of thought and meaning that critiqued both classical political economic economy that the British used to justify the suffocation of Indian industry and entrepreneurship as well as Gandhian philosophy that rejected industrialization by projecting a vision of India's future based on the idealized purity and simplicity of an imagined pre-colonial village life. Nehru constructed an alternative nationalism based on the application of 'modern' science in industry, education and cultural life that would underpin the development of large-scale technology-intensive industry providing widespread manufacturing sector employment. This would both rescue India's poverty-stricken peasants from the drudgery and 'backwardness' of village life while restoring India's position in the global hierarchy of nation-states. Nehru's scientific socialism was tailored for India and had explicit implications for political action. Contrary to the British who were bent on retaining control of the 'Jewel in the Crown of British Empire' even as the rest of the empire crumbled amidst the economic malaise and political tensions of the inter-war period, as well as Gandhians advocating for the partial autonomy of Dominion status,¹¹ Nehru proposed full Indian control of economic policies as the only acceptable political solution. On the role of foreign capital, Nehru stated: "Political domination is patent enough, but a far more dangerous and insidious thing is economic domination" this

¹¹ Dominion status comprised political autonomy, but with the confines of the British Empire. This was the political status that the European settler colonies of Canada, New Zealand, Australia and South Africa held since the late 19th century.

view was to become clear in his approach to the pharmaceutical industry and patents in the 1950s (Tyabji, 2004, 2010). He tabled a resolution at the December 1927 annual meeting of the Congress in Madras stating that “the Congress declares the goal of the Indian people to be complete national independence.” It was overwhelmingly passed.

Emerging Conflict and Contestation between Gandhi and Nehru

Much like Gandhi reoriented the nationalist elite Congress towards mass engagement and ‘Indianized’ its form and function a decade before, the resolution signaled a new direction for the Congress, albeit one that conflicted with Gandhi’s approach. It marked the beginning of contestation between Gandhi and Nehru’s diverging nationalisms. Indeed, Gandhi wrote Nehru a letter on January 4 1928 criticizing his socio-economic vision and independence resolution that ran against Gandhi’s own more moderate calls for Dominion Status as “hastily conceived and thoughtlessly passed”. Gandhi chastised Nehru saying: “You are going too fast. You should have taken time to think and become acclimatised.” Nehru’s curt reply reflected the sharp divide that had emerged in their positions:

You have stated somewhere that India has nothing to learn from the West and that she has reached a pinnacle of wisdom in the past. **I entirely disagree with this viewpoint and I neither think that the so-called *Ram Raj* was very good in the past, nor do I want it back.** I think the Western or rather industrial civilization is bound to conquer India, may be with changes and adaptations, but none the less in the main based on industrialism. **You have criticised strongly the many obvious defects of industrialism and hardly paid any attention to its merits.** Everybody knows these defects and all the Utopias and social theories are meant to remove them. It is the opinion of most thinkers in the West that these defects are not due to industrialism as such but to the capitalist system which is based on the exploitation of others. I believe you have stated that in your opinion there is no necessary conflict between Capital and Labour. **I think that under the capitalist system this conflict is inevitable.**¹²

Gandhi’s *Ram Raj*, a religiously-inspired utopic golden age of harmonious co-existence in the non-industrial society that underpinned his economic program of village-based industry epitomized by home-spun ‘khadi’ cloth, was firmly rejected for a conception of modernity and progress modeled on Western experience.¹³ This was a major divide

¹² Letter from Nehru to Gandhi, in S. Gopal (ed) *Selected Works of Jawaharlal Nehru*, cited in Mishra, 1988:44.

¹³ Further, there was a place for *zamindari* landlords and Indian princes in Gandhi’s utopia, figures for whom Nehru had significant contempt as long-standing economic and political oppressors of the masses.

between two powerful cultural meaning-systems (cf. Wedeen, 2002). Nehru believed that Gandhi's village self-help was a glorification of poverty and backwardness. Instead, his strategic conflation of "Western or rather industrial civilization" represented an attempt at (re)appropriating the meaning of 'modern' industrial society. Although modern industry was associated with the West, Nehru argued that there is nothing intrinsically Western about 'industrialism' given the glories of India's own industrial past, much as had been elaborated in great detail by the nationalist theories of the 19th century. Further, he argued that the 'well-known' defects of industrial society are not intrinsic to the technological aspects of industrialism, but rather were due to the capitalist system in which they are embedded, in particular its exploitation of labor by capital. This provided important insight into Nehru's views of capitalists as exploitative economic actors that would underpin his preferences for state-owned industry once he became Prime Minister. These views are contrasted with colonial and Gandhian conceptions later in the chapter.

Finally, while Gandhi's philosophy was exclusively rooted in a depiction of the moral purity of India's past and his anti-imperial activism was aimed at Indians under colonial oppression at home and in the South African, Fijian and other diasporas, Nehru embedded his nationalist approach in a broader anti-imperialist framework. He imbued it with purpose and meaning (Abdelal, 2001) by identifying the "commonality of interests among 'the peoples of Asia and Africa struggling for freedom' and 'the worker of the West'". Nehru argued that 'Imperialism was the common enemy to be fought ceaselessly and rooted out before a better order could be established'".¹⁴ This critique accorded with Lenin's famous 1917 statement in *Imperialism, the Highest Stage of Capitalism*.

Nehru conducted extensive 'educational tours' around the country throughout 1928 in order to share his nationalist vision of *swadeshi* (self-reliance), *swaraj* (self rule) and socialism with peasants, students and industrial workers. However, while Nehru gathered new followers amongst the masses of colonial subjects, the political implications of his system of thought generated internal conflict within the Congress. A section of the leadership -- interestingly backed by the two paternal influences in Nehru's life, Gandhi

¹⁴ Nehru's foreword to PJ Schmidt's *The Imperialist Danger*, cited in Mishra (1988:44).

as well as his father Motilal Nehru who at the time was serving as Congress President -- sought to soften the independence resolution and return to demands for Dominion status within two years, though retaining full independence as the ultimate goal. Nehru strongly criticized this move and refused to attend the final sitting of the session. Though the Congress adopted the weakened Dominion resolution, albeit with a one-year time frame, the year 1929 saw Nehru grow significantly in stature within the Congress and across the country. Although he had already suffered the first of several periods of incarceration at the hands of colonial authorities, he returned to their attention, though outside of Gandhi's shadow. The Raj now saw Nehru and other members of the younger generation such as Babu Subhas Chandra Bose as 'an extreme nationalist who is at the same time genuinely attracted by some of the Communist doctrines' and tried to label Nehru as an agent of Moscow.¹⁵

The Complexities of the Nehru-Gandhi Relationship

Finally, it is important to recognize that although Gandhi and Nehru began what would be a long period of vigorous contestation between their competing nationalist visions of India's future, the two men retained a close if complex relationship akin to that of father and son. Indeed, in the midst of the otherwise curt exchange of letters cited overleaf, Nehru affectionately asked Gandhi 'Am I not your child in politics, though perhaps a truant and errant child?'¹⁶ Thus in spite of his conflicts with Congress senior leadership, Nehru was chosen to preside over the December 1929 annual meeting in Lahore with the backing of Gandhi. Though he had the support of only 3 of 18 Provincial Congress Committee members (10 of the 18 supported Gandhi) Gandhi's backing and "statement that 'Jawaharlal's being in the Congress presidential chair was as good as his being in that position'" was influential (Mishra, 1988:52). The year 1929 saw preparations for new agitations as the one-year window for Dominion status expired with no positive signals from the British. Even moderate supporters of the Dominion proposal were resigned to increased pressure on the British through Nehru's approach. The dawn of the

¹⁵ Nehru, like Gandhi, frequently ran afoul of the colonial authorities and spent much of this period in jail. He was first arrested in 1921, and was incarcerated again in 1930 and several more times up to 1945.

¹⁶ January, 24 1928 letter from Nehru to Gandhi, cited in Perry Anderson's 'Why Partition?' London Review of Books, Vol 34, No. 12, 19 July 2012. <http://www.lrb.co.uk/v34/n14/perry-anderson/why-partition> last accessed August 20, 2012.

new decade was thus set for renewed conflicts between colonial forces and an new mode of nationalism, as the Congress penned a declaration against the British in January 1930 citing drain of the economy through taxation, destruction of village handicraft industries, currency manipulation and tariffs biased towards British manufactures. The independence battle was on.

III. The Great Depression:

Uncertainty and the Social Meaning of 'Development'

The rise of the new Indian nationalisms in the 1920s coincided with a period of increased structural fragility in the global political economy and the liberal intellectual paradigm that supported it, though these were not entirely separate as Nehru's European travels most clearly show. WWI provided the initial disruption to the old imperial equilibrium, and orthodox economic theories came under massive pressure in the 1920s before exploding with the Great Depression and subsequent collapse of the international financial system. The global political economy of the 'first globalization' was based on the application of post-Enlightenment scientific discoveries to industry, the boom in manufacturing production stemming from the Industrial Revolution in England that subsequently spread to the rest of Europe and North America, coupled with the interstate system of economic exchange rationalized by the cognitive and cultural schema of free trade. The financial system was based on an international monetary framework of credit and currency exchange anchored by the Gold Standard. This was embedded within an imperial state system that relied on a complex and tenuous balance of power maintained by post-1870 treaties between European imperial powers. Together these facilitated international trade and maintained political peace, but the system had been under pressure for decades. In this respect the onset of the Great War was merely the 'cataclysmic' outcome of political-economic tensions that had been building throughout the 'long 19th century'.

Post-war attempts to reestablish the liberal economic system ultimately failed with the stock market crash of 1929 and the beginning of the Great Depression. These structural

developments had a major impact on the causal ideas of liberal economic thought that rationalized the entire system. “As the economic and regulatory institutions of liberal capitalist states became unstable” in the 1920s and the Great Depression set in, “the majority of such states rejected the ideas of classical liberalism as the cornerstone of economic management” and the bottom completely “fell out of the free market orthodoxy when Britain went off the gold standard” in September 1931 (Blyth, 2001:4-5, 108).¹⁷

These developments in the global political economy “created a new context for arguments which challenged accepted economic orthodoxies” as the precepts of classical economics that underpinned pre-WW1 stability gave way to an increasingly open debate (Zachariah, 2005:29). “A variety of reflationary and redistributive economic ideas, ranging from Keynesianism to fascism, were developed and deployed by different states” to address the uncertainty amidst the global economic collapse of the 1930s (Blyth 2001:4-5).¹⁸ As the boundaries and assumptions of “acceptable economics” shifted in global discourse, they became “extremely permeable” in India providing openings and opportunities for new nationalist critiques designed for the reality of the time (Zachariah, 2005:291). These fractures in the institutional structure of the global political economy that rested on the precepts of classical political economy coincided with the emerging conflict and contestation amongst Indian nationalists in the Gandhian and Nehruvian ‘socialist-scientific’ camps.

For the first time in the nationalist movement, major fractures had developed in the causal ideas and social meaning of what for decades had been a relatively coherent and

¹⁷ Polanyi provides the most apt description of the times in his famous text *The Great Transformation: The “abandonment of the gold standard by Great Britain; the Five-Year plans in Russia; the launching of the New Deal; the Nationalist Socialist Revolution in Germany; the collapse of the League [of Nations] in favor of autarchist empires. While at the end of the Great War nineteenth century ideals were paramount, and their influence dominated the following decade, by 1940 every vestige of the international system had disappeared and, apart from a few enclaves, the nations were living in an entirely new international setting”* (Polanyi, [1944] 2001:24). When the US went off the gold standard in 1933 “the last vestige of the traditional world economy vanished” (Ibid:27). This was the tumultuous reality of the 1930s.

¹⁸ “These economic ideas postulated that governments could, and should, seek to control the national economy by active market manipulation since the private economy as a whole was perceived as inherently unstable and incapable of socially optimal outcomes” (Blyth 2001:4-5). These new ideas supported active market management by the state, which had a duty to ensure investment, generate employment and promote economic growth.

consensual Indian nationalism oriented towards opposing imperialism. However, though these fractures opened new opportunities and spaces for fresh ideas, this did not signal a clean break with nationalist thought of the past. In India, “old debates [on economic drain, famines, free trade and the role of indigenous industry] became part of the historical memory which was to be drawn upon as a political resource-base by nationalists” (Zachariah, 2005:29; cf. Sewell, 1992). Nevertheless, these were not simply cultural scripts that actors passively internalized through uncontested processes of socialization. Contemporary nationalists displayed significant agency and creativity in constructing new cognitive and cultural schemas. These powerful and salient systems of meaning and thought were devised by strategically dismissing some imperial arguments and appropriating others in order to contest imperial power in the political and policy domain.

***Uncertainty and the Causal Ideas and Social Meaning(s) Ascribed to ‘Development’:
Economic Theory and Science and Technology***

It is critical to stress the ambiguities, uncertainties and multiple possibilities that economic actors in India and indeed worldwide faced in the 1930s (Polanyi, 1944; Blyth, 2002; Zachariah, 2005).¹⁹ Two dynamics were clear: there was enormous worry as to the direction of the global political economy, particularly given the twin political and economic threats of stagnation and fascism (Polanyi, 1944), and yet the vulnerability of the dominant explanatory framework of liberal economics represented an exciting array of possibilities for colonies agitating for independence. The weaknesses of the liberal economic model made apparent by the breakdown of the global economic system provided ammunition to the Indian nationalist critique that had been long been leveled against the imperial liberal order -- much like it fuelled the ideas of John Maynard Keynes, who incidentally began his government career in the India office in London.²⁰

Development remained the stated goal of both imperialism and nationalism, but during this tumultuous and uncertain period the concept of ‘development’ itself encompassed a

¹⁹ See discussion on uncertainty in Blyth (2002) and Rathbun (2007) as well as in Chapter 2.

²⁰ Abdelal et al (2005:20-25) provide an extensive discussion about Keynes’ constructivist thought in making sense of the economy amidst the uncertainty of the Great Depression that accords with this argument].

wide variety of causal ideas and social meanings. Policy “debates surrounding the word evoked a wide and exciting range of possibilities, not yet limited by the later impositions of ‘development economics’, and relatively unconstrained by the demands of practical politics” as nationalist actors had the freedom of critique without the responsibility and practical challenges of policy implementation (Zachariah, 2005:1). This reflected a fracturing of the social meaning ascribed to development in the late 19th century, when both imperialist and nationalist actors shared a fairly unitary conception of the phenomenon that was largely modeled on post-Enlightenment Western modernity: material and intellectual progress predicated on science, reason and rationality in the public sphere. This became open to debate in the 1930s with new Gandhian and Nehruvian conceptions of development and modernity battling liberal imperial thought for supremacy in the political realm.

Though the liberal global economy was crumbling and the solution to the intellectual crisis was up for grabs, the terms along which the debate would be conducted were clear. The discursive arena remained structured by imperial power, just as it was in late 19th century, such that to be effective, nationalist interventions had to appeal to terms that had gained academic and political legitimacy in the UK. Imperialism was more than a set of structural-material political economic relationships; it also constituted the social and intellectual environment that shaped the development debates in India. It provided the ‘taken for granted setting’ and the “discursive framework that writers and audiences shared even as they resisted it”. It remained “the reference point for attempts at developing and deploying alternative discursive frameworks” (Zachariah, 2005:58; see also Schmidt, 2008 on ‘Discursive Institutionalism’). While the nationalist critique had to be rooted in the ‘scientific’ language of economics and European ideas provided the language for the nationalist critique, “The solution [for nationalist actors] was to seek to move the boundaries of ‘economics’; to widen the scope of existing fora as far as possible to express the wider views’ and to create new fora, drawing more people into sharing the wider concerns” (Ibid). Keynesian and other critiques of classical political economy weakened the orthodoxy and served as resources for strategic actors in their efforts to shape the cultural, discursive and ultimately policy environment.

Conventional economic theory prescribed particular assumptions about India, naturalizing its backwardness while asserting European superiority. These are the same cultural schemas that the nationalist arguments of the 19th century described in Chapter 3 were designed to counter, but Nehru and Gandhi moved beyond Naoroji and Dutt, albeit in radically different ways. The meanings ascribed to development in the post WWI period were malleable and shifted as nationalist actors strategically adapted them to the contemporary Indian context, both to contest imperial power and to intervene in the internal struggle between Gandhi's "turn-of-the-century anti-industrial romanticism" (Zachariah, 2005:16) and Nehru's modernist vision predicated on large-scale industry, state planning and Western technology (cf. Wedeen, 2002; Sewell, 1992; Schmidt, 2008). A key part of nationalist grievances was the lack of support for indigenous industry amidst protection and subsidization of British capital. This underpinned the nationalist position towards foreign capital. Gandhian and socialist-scientific nationalists held a shared understanding of British deindustrialization of India, but ascribed radically different social meanings to the implications for India's subsequent development path. Gandhian principles focused on the destruction of traditional handicrafts and promoted a return to village-based cottage industries of the past, powerfully symbolized by the political salient homespun 'khadi' cloth. By contrast, Nehruvian scientific socialists held that British deindustrialization derailed India from following its own 'natural' path to Industrial Revolution. The solution to India's stunted industrialization was heavy state direction to compensate for colonial disruption and accelerate the development of technology intensive industry. Both of these systems of thought had major implications for private domestic capital, as hinted earlier and illustrated in the next section.

Finally, as argued in the previous chapters, science and technology had a central role in the conceptions of modernity in competing Gandhian, Nehruvian and imperial systems of thought. Just as theoretical principles and empirical realities that informed the field of economics were in flux, so to was the flowering of science fueling the 'technological imaginations' of nationalist actors, particularly as the inevitability of self-government and independence became clear. There was a tightly inscribed link between nationhood,

science, rationality and modernity. “To be a nation was to be endowed with science, which had become the touchstone of rationality” (Prakash, 1999:7). Science was a “metaphor” and a “grammar of modern power” that aspiring nationalist leaders sought to deploy in fashioning an image of India’s future (Ibid). These nationalist visions of science and technology were about more than what scientists might actually do, or what might actually take place in a lab; they were about “...what science stood for, the dazzling range of meanings and functions it represented” (Ibid). This highlights the analytic power of the concept of ‘sociotechnical imaginaries’ introduced in chapter two (Jasanoff et al, 2007) and has direct bearing on the political possibilities that the concept of ‘science’ provided to strategic nationalist actors.

The scientific imaginary enveloped broad aspects of Indian social, political and economic life, providing the tools for competing nationalist and imperialist actors to organize politics and the economy. “The rich and pervasive influence of science was rooted in its ambiguity as a sign – its ability to spill beyond its definition as a body of methods, practices, and experimental knowledge produced in the laboratory and confined only to the understanding of nature” (Prakash, 1999:7). This ambiguity constituted a powerful resource in the construction of cognitive and cultural schemas, allowing competing actors to ascribe different causal relations, functions and possibilities to science and technology, much as the crisis in liberal economic theory allowed them to do with economics. The inherent ambiguity in science and economics created a space for politics, with the technical details of competing economic theories and visions of technology mapping the terrain of contestation. This is epitomized by the debates between Gandhians and Nehruvian scientific-socialists who constructed their nationalist projects on differing conceptions of technology: a return to traditionally superior technology of India’s past or a re-appropriation of modern Western technology that was built on stolen Indian knowledge. The next section describes this strategic action by analyzing the discursive terrain of development and modernity in the 1930s. It begins with the initial structure provided by imperialism, and then assesses the interventions of Gandhi and Nehru’s competing brands of Indian nationalism and the way these shaped Indian National Congress as it moved towards to independence and control of state power.

IV. Contesting Development and Modernity

There was a complex coexistence of commonality and opposition between Gandhian conceptions of development and modernity, and those of liberal colonial authorities on one hand, and competing scientific socialist actors on the other. Scientific-socialists and Gandhians were both staunchly anti-imperialist, but ascribed radically different meanings to the cultural symbols of technology-intensive industry and material wealth that were defining characteristics of Western modernity. Gandhi completely rejected these trappings of the West on moral grounds, while scientific-socialists sought to universalize these symbols from the exclusive domain of Europe. Similarly, imperialist actors shared scientific socialists' views of progress as based on industrialization, but rejected the idea that India could partake in this modernity and relegated India's future to low-technology production, a conception that was not unlike Gandhi's 'traditional' village industry. This section explores the complexities and contradictions of competing imperial, Gandhian and scientific socialist systems of thought, highlighting the agency and creativity that its proponents deployed to persuasively convey the meaning of their systems of thought in the policy domain.

The Imperial Discursive Frame

As the previous section argued, the discursive framework in India remained structured by imperial power, even with the economic crisis, great depression and imperial decline. India was considered backward for a set of naturalized political, social, economic and even racial reasons, all of which were backed by 'scientific' 19th century theories from classical political economy, social theory and Darwinian evolutionary theory. This backwardness assigned Britain the moral responsibility to 'develop' India, as illustrated in the Colonial Office's official rhetoric and documents including the annual *Moral and Material Progress Report*, correspondence between colonial officials, and popular discourse epitomized by Rudyard Kipling's classic poem 'The White Man's Burden'.²¹

²¹ The close relationship between moral and material elements of development was not just a part of nationalist systems of thought. From 1858-1935 the Government of India Act required the colonial government to present a statement on the 'Moral and Material Progress of India' each year in Parliament.

These views had clear implications for industrialization in India. Modern technology was only implementable in the West, and India simply lacked the ‘natural’ conditions and capacities to support technologically sophisticated industry, though the colony was well suited towards agriculture and mineral extraction. However, maintaining this imperial system of thought required creative strategic action even for imperial powers just as it did for nationalist challengers, particularly given the wider developments in the global economy.

The collapse of the liberal economic system posed major challenges for colonial authorities with respect to the question of Indian industrialization and the position of indigenous versus British capital in the Indian economy. It became increasingly difficult to justify a policy stance on the basis of free market principles with limited government intervention (which of course favored British firms), particularly given the economic success stemming from the increased role of the state in the advanced countries – Keynesian at home in the UK as well as most of Western Europe and the New Deal US, fascism in Germany, Italy and Japan, and communism in Russia -- and continued agitations for state support for industrialization in the Indian colony.²² This provided an opportunity for significant agency and creativity on the part of colonial actors; nationalist actors were not alone in this respect.

Colonial actors adopted a dual strategy. First, they selectively appropriated aspects of the nationalist economic argument and adapted to their own purposes.²³ Many found Gandhi’s economic ideas (as distinct from his political philosophy) quite appealing: “Gandhi’s concern with villages was lauded as correct, as the ‘real’ India lived in its villages; therefore, industrialization was undesirable, as it would damage this ‘real’ India” (Zachariah, 2005:48-9). However, they also allowed that India might have some

This view “implied that moral progress would accompany the material, thereby allowing the imperium to claim the high moral ground” (Zachariah 2005:45).

²² This of course was exacerbated by the success of Japanese exports in India (and other global markets) which, as argued in the previous chapter, was widely recognized to be based on major state support for Japanese industry.

²³ Thus nationalists were not alone in selective appropriation of their opponents’ arguments, even though colonial actors were operating from a position of power.

limited industrialization in technologically undemanding areas that fit India's 'natural' conditions, which as it turned out overlapped with areas where Indians would not compete with British producers. Sir George Schuster, a liberal Finance Member (1928-1934) within the otherwise conservative colonial government thought that India could have some industrialization, though mainly in lower end manufactures that British firms were abandoning as they upgraded from textiles and steel to more complex manufactured goods. However, he thought "there would continue to be 'a mass of manufactures which India cannot possibly manufacture herself'" (Zachariah, 2005:88-89). He believed that "Planning India's economy was also a part of a wider process of reconciliation of British and Indian business interests" and "hoped for a 'complementary plan' which would involve cooperation of Indian and British interests" but nevertheless would maintain the existing international division of labor (Ibid).²⁴

This somewhat conciliatory position that offered hope for some limited industrial policy support to Indian capital was dashed when Shuster was replaced as Finance Member by the orthodox Sir James Grigg, who held the position from 1934 until 1939 when he was called back to London to be Under Secretary of War at the beginning of World War II. Even amidst the incredible uncertainty of the time some colonial actors like Grigg remained steadfast in their liberal economic beliefs. Grigg found Keynesian ideas "'either silly or vicious'...Agriculture was, according to him, the real 'vocation' of India and he did not hide his hostility to a policy of industrialization based on customs protection nor his sympathies for Lancashire interests" (Markovits, 1985:48).²⁵ His views were unshaken by the uncertainty and complexity of the economic environment. On September 10, 1934 he wrote to Purshottomdas Thakurdas, an important voice amongst indigenous business and co-founder of the leading Indian industry association FICCI, 'I wish I could see my way *though all this economic mess*. My one *clear ray of light* - which you will perhaps think a cloud of error - is that India mustn't industrialise herself too quickly' (Markovits, 1985:48, emphasis added).

²⁴ Colonial as well as Gandhian and Nehruvian approaches to the relationship between the state and foreign and domestic capital will be analyzed in the next chapter.

²⁵ Additionally, "He was very hostile to Indian businessmen, particularly to G.D. Birla [one of India's two leading businessmen along with J.R.D. Tata] who was his 'bete noir' " (Markovits, 1985:48).

India's position was thus defined relative to British interests and colonial assumptions about Indian industrial potential and its natural position in the world economy. India was to remain a market for British exports, and Indian capital at best junior partners to their foreign counterparts.²⁶ Noting the increase in imports of more sophisticated higher value-added industrial goods from Britain such as chemicals, electrical machinery and automobiles, even the conciliatory Schuster argued that “ ‘Most of these, *especially motor vehicles*, are classes of imports which are capable of vast expansion without interfering with India's own natural industrial development’ ”.²⁷ Automobiles is worth highlighting as precisely the type of good that reflected Britain's ‘natural’ advantage in technology intensive manufactured goods – a view with its roots in classical political economy -- and thus autos is the main illustrative industry in the latter chapters of this dissertation. Further, as we will see below and in Chapter Six, Schuster made this statement at the same time that one of the leading scientific socialists was formulating and promoting a comprehensive plan for automobile manufacturing in India based on indigenous capital, having chosen automobiles precisely because of its technological intensity and association with modernity.

Grigg's exchange with Thakurdas makes his views on India crystal clear, but it was in private correspondence with his British colleagues though that Grigg revealed its full force, providing the most apt depiction of the colonial position:

...India is the most desperate poor and inefficient and backward country you can imagine. The representative Indian is not to be found among the few tens of thousands of noisy politicians, journalists, **stock exchange gamblers** and clerks; **he is an almost naked creature clad in a loin cloth and an umbrella who squats about among his crops by day and breeds like a rabbit by night**...As an antidote to the misfortunes of the cultivator we have played up to the idea of a rapid industrialization of India...but the effects haven't been too happy. The prices to the consumer have been grotesquely high (**and the consumer is the peasant plus the European**), import trade had been cut down enormously and...the ability of the agriculturalist [sic] to export still further reduced while except in the case of steel the enterprise and uprightness of the industrialist have been insufficient to enable the new industries to become established securely. Thus we

²⁶ This reflected the colonial position on the prospects of Indian manufacturing, and crucially, is an early articulation of the view of Indian firms as ‘Junior Partners’ to foreign firms that has major resonance in the post-independence period and later liberalization periods, particularly with conflicts around joint ventures.

²⁷ Zachariah, 2005:89 footnote 31, emphasis added.

have pleased nobody not even the industrialist or the politician to whom we have been playing up.²⁸

Grigg was an unrepentant believer in liberal economics. Despite the collapse of the global economy and the 'economic mess' that he tried to see through, he wrote to a colleague in 1935 "I am still a firm believer in individualism and my experience in India has confirmed my view that there is no real hope for the world until it gets back much more nearly to Free Trade" (Zachariah, 2005:93) while his views on the latter were even more extreme:

Grigg's personal crusade was against the 'particularly virulent form of economic nationalism' that existed in India; on the hopeful side, he reported 'faint glimmerings of a recognition that **economic nationalism is only a device for big employers to exploit their workmen, the consumers and the taxpayer generally.**' He detested businessmen more than he detested the Congress. Nehru was 'an academic but fanatical revolutionary' other in the Congress 'merely **the jackals of big business and most people think that Gandhi is really a prisoner of these**'. Businessmen in India had a 'habit of posing as the people of India and getting higher protection as a result. Nehru's current ascendancy, he noted, had frightened the 'jackals' to say to Zetland and Linlithgow [Secretary of State for India 1937-40 and Viceroy of India 1937-43, respectively] that 'they want to be reconciled to the British and that Gandhi is the only possible instrument for effecting this reconciliation'. This was not only 'from the point of view of checking communism'. These '**buccaneers of business**' knew that the '**reappearance of Gandhi** again in any active form would mean that the **markets would be hopping about like mad** and so they would be able to make **enormous speculative profits**'.²⁹

Constructing Cultural Categories of Capitalist Legitimacy:

Colonial and Nationalist Contestation

Grigg saw Congress as in the pocket of big business, an interpretation that emerged from the classical political economy perspective of rational calculating self-interest and also fits with contemporary public choice theories of business-government relations.³⁰

²⁸ Letter from Grigg to Chamberlain, 17 Aug 1934, cited in Zachariah (2005:94-5).

²⁹ Letter cited in Zachariah (2005:94).

³⁰ There may have been a significant gap between colonial perception and reality. Mukherjee (2002) argues that Indian capital had relatively little influence on the Congress Party by virtue of its financial wherewithal. He cites a March 1939 intelligence report on Congress finances from the Director of the Intelligence Bureau: "Congress has also very important substitutes for regular finance. The mass 'appeal to patriotism' saves as host of cash expenditures. Free traveling by railway or public motor transport, fees levied on all transactions at markets, voluntary contributions collected at meetings, fairs, etc, by Congress volunteers are examples." (Mukherjee, 2002:64) Additionally, in response to Viceroy Linlithgow's question of "Whether Congress can for long continue an existence divorced from the Gandhian moneybags" the report stated: "Both for normal Congress activities and for election purposes, the moneybags are less important than the Gandhian superstition [i.e. nationalist ideology] and the powerful

However, Gandhi offered a different view. In “grappl[ing] with the asymmetrical relationship of indigenous capital and Indian nationalism” Gandhi, a lawyer by training, “proposed the [legal] concept of trusteeship as the ethical ground for India’s rapidly expanding industrial bourgeoisie.” Gandhi explained his trusteeship proposal in a 1935 interview in the *Modern Review*: “Those who own money now are asked to behave like trustees, holding their riches on behalf of the poor. You may say that trusteeship is a legal fiction. But if the people mediate over it constantly and try to act up to it, then life on earth would be governed far more by love than it is a present”.³¹

The ‘trust’ was a “distinctly British legal concept” that reflected a proxy relationship while providing a model of self-governance. The roots of the concept in the Indian context can be traced back to the 19th century English philosopher Frederic William Maitland’s description of the East India Company as an agent holding the Indian colony in trust on behalf of the British Crown (Ibid).³² Gandhi’s invocation of the concept, as well as his explicit recognition of justification of the use of this ‘legal fiction,’ provided another example of elite ‘trafficking’ between the indigenous and the Western, strategic appropriation of ideas through the combination of schemas as well as the growing role of the legal tools in constructing and legitimizing the institutions of the Indian political economy. This is most clear from Gandhi’s influence from Western philosophers. More crucially, it reflects Gandhi’s strategic efforts to construct a particular vision of Indian development and was an early sign that despite his promotion of small-scale village

influence of Congress ministries in office. With these influences to support them, local Congress organizations can command so much support from the public and also in more or less disguised form, from the official machinery, that they are in a position to fight elections without needing much money.” (Mukherjee, 64) Finally, after the Quit India (civil disobedience) movement was launched in August 1942 the Viceroy ordered another investigation that found: “As to the relationship between big business and Congress, the available evidence does not appear to justify any assumption that ‘Big Business’ has secretly been using Congress as an unsuspecting instrument towards the achievement of its own ends, or vice-versa, but rather that the two have been working together in a partnership of convenience with no illusions on either side” (Mukherjee, 2002:64-5).

³¹ Cited in Birla (1999:103). Gandhi elaborated this theory through interviews and article in the 1920s and 1930s. See his piece: *My Theory of Trusteeship*.

³² Birla argues that the trust constitutes a “legal allegory” defining fiduciary relations between the benevolent GOI and its subjects. “Gandhi’s theory of trusteeship called upon benevolence to regulate capitalisms concentration of wealth, evoking the disciplines of contract – that is, legal obligations o beneficiaries – as the moral duty of capitalists. As public discourse, Gandhi’s trusteeship reflected the prominence of legal concepts in colonial modernity’s social imaginary, where the charitable trust and the joint-stock company institutionalized the public as alibi for the market.” (104)

enterprise Gandhi was hardly anti-capitalist, but had a much more nuanced and complex conception of indigenous capitalist production, a point that becomes crucial in the debates of the 1930s.

Finally, Gandhi's view had major implications for the emerging categories of capitalist legitimacy. The concept of trusteeship reformulated 'Indian Economic Man' from Adam Smith's self-interested profit maximizing capitalist to the "philanthropic trustee, a figure both paternal and entrepreneurial, managing his wealth as the nation's wealth, in service of beneficiaries, the nation, and the poor, the public and the population" (Birla, 2009:103). As we will see below, this was a cultural category that was radically different from the rapacious moneylender or ragged bazaar-merchant and which Indian capitalists seized upon in the mid-late 1920s and 1930s. The view of the trustee instead accorded with notions of American industrialists such as Andrew Carnegie who were attempting to shed the robber-baron image. This link between American and Indian conceptions of capitalists is underpinned by the obituary that *Science and Culture* published following Carnegie's death. Gandhian and wider notions of capitalists as trustees thus accorded well with Indian economic actors own burgeoning efforts to project themselves in the public sphere as economic experts committed to the pursuit of nation's interests.

Contesting Cultural Categories of Domestic Capitalist Legitimacy in 1930s India

<p>Illegitimate Indian economic actors</p> <p><i>Traditional:</i> <i>Liberal imperial view of Indian business as 'speculators', 'jackals' and 'buccaneers' of business that exploit consumers, the taxpayer and their workers.</i> <i>Nehruvian view of capitalists as exploiters of labor</i></p>	<p>Legitimate Indian economic actors</p> <p><i>Modern: Gandhian view of 'trustees of the nations wealth'</i></p>
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The Scientific Socialist Critique

This imperial position -- as well as the Gandhian precepts it sought to appropriate -- was vigorously contested by the emerging group of scientific socialist 'modernizers'.³³ Besides Nehru, key figures included Meghnad Saha, physicist from Presidency College

³³ [Alternatively: The emerging group of scientific socialist 'modernizers' vigorously contested this imperial position and the Gandhian precepts it sought to appropriate.]

in Calcutta who founded the Indian Science News Association that launched the influential monthly journal *Science and Culture*, which was modeled on *Nature* (UK) and *Science* (US)³⁴; P.C. Mahalanobis, physicist-mathematician-statistician also from Presidency College, founder of the Indian Statistical Institute and a major contributor the design of the input-output tables that would form the core of India's post-independence economic planning; and Sir M. Visvesvaraya, a civil engineer and civil servant who was an influential voice in elite discussions around the development of Indian industry, particularly autos. These men were connected through their participation in a series of political efforts to project a view of 'modern' technology and its role in Indian development.³⁵ This technological focus also meant that beliefs about foreign capital were a central part of the modernizing discourse.

Visvesvaraya's background epitomizes the modernizing scientific-socialist belief in state-directed application of science and technology to the problems of development. Visvesvaraya visited Japan in 1898 and witnessed the rapid industrialization that the state had achieved during the Meiji Revolution. This was widely understood as the reason behind Japanese victory in the Russo-Japanese War in 1905 and its rise as a world power, and was reinforced by the steady increase in Japanese manufactured goods in the Indian market after 1910. It is further worth noting that this production was organized through private firms albeit with heavy state support. Visvesvaraya's experience provided the belief that industrialization was the means to material wealth and global power, which he articulated by advancing the link between science, technology and industry. Science was the means to industrialization, which in turn was the path to modernity. This belief was the driving force behind Visvesvaraya's proposal for launching automobile production in India, which he developed in 1935-6 after conducting study tours in the US and Europe.

³⁶ The plan included many of India's leading industrialists such as Walchand Hirachand,

³⁴ *Science and Culture* released its first issue in 1935. The journal played a key role in propagating and disseminating these scientific imaginaries. The journal provided a platform from which these men could share and promote their visions, to other elites – both colonial-imperial and domestic capitalists – as well as to the wider English speaking civil society that was itself gaining greater political consciousness.

³⁵ Prafulla Chandra Ray, author of *A Hindu Chemistry* and also a Bengali academic at Presidency College, was an early forerunner of this group.

³⁶ Visvesvaraya also attacked colonial government for obstructionism through his All-Indian Manufacturer Organization and the pamphlet entitled *Indian Automobile Factory Scheme: Government of India's*

J.R.D. Tata and G.D. Birla amongst others and resulted in the creation of a joint-stock company named Indian Motors Ltd. The proposal aimed to have minority foreign capital participation to ensure technical support but preclude managerial control, the model that was to dominate Indian engagement with foreign capital in the post-independence period.³⁷

Meghnad Saha was an active participant in politics as a ‘nation-builder’ and was one of the most visible commentators on Indian development. He played an important role in building key scientific institutions in India such as the National Institute of Science and ‘scoffed’ at politicians -- namely Gandhi and his followers -- who failed to see the role of science and technology in India’s destiny and who blamed India’s challenge on science. By contrast, in the introductory issue of *Science and Culture* he argued that only intense use of science could allow India to address its “bewildering economic, social and even political problems” (*Science and Culture*, June 1935, Vol. 1, No. 1). These actors sought to ‘mysticize’ the development challenge and then offer science as a map to chart India’s path. Science was the core of industry, planning was the means to harness science for development, and scientists were the key interlocutors. This understanding was not limited to professional scientists; it was shared by leading scientific-socialists in the political realm such as nationalist leader Subhas Chandra Bose, who welcomed the turn to modern science while distinguishing this new generation of nationalists from their older predecessors including Gandhi:

The appearance of *Science and Culture* is to be warmly welcomed not only by those who are interested in the abstract sciences but also by those who are interested in nation-building in practice. **Whatever might have been the view of our older “Nation-Builders”, we younger folks approach the task of nation building in a thoroughly scientific spirit and we desire to be armed with all the knowledge which modern science and culture can afford us.** It is not possible, however, for political workers with their unending preoccupations to glean that knowledge for themselves; it is therefore for scientists and **scientific investigators to come to their rescue.**³⁸

Obstructive Attitude, which cited the benefits that auto manufacturing would have for the development of Indian industry as well as for the war effort (Zachariah, 2005:255).

³⁷ Visvesvaraya’s plan is assessed in greater detail in the next chapter.

³⁸ “Some Problems of Nation-Building” Subhas Chandra Bose, *Science and Culture*, October, 1935.

These actors saw science and technology as central for transforming backward nations to industrial giants. It served as metric for ‘backwardness’, particularly through specific industries that epitomized development and modernity, of which autos was the most important as a 1938 editorial in *Science and Culture* based on data from Visvesvaraya’s auto plan makes clear: “...if we take the motor car industry as an index of civilized existence, the USA stands easily first, with over 30 million cars in use; about one man in 5 possesses a car, i.e. every family possesses a car...in India, there is one car for every 2,300 persons. This figure gives an appalling picture of the low index of civilized life in India”.³⁹ This provides a clear reflection of the social meaning ascribed to the automobile industry as a symbol of development and modernity in India, much as it was in peer developing countries aspiring to industrialization, as discussed in the next chapter through comparison with Brazil.

This tension is revealed in discussions of the development of an auto industry in India. Saha saw himself as both a socialist and a scientist, believing that the true emancipatory power of science was only possible through socialism. However, in practice the solutions he recommended were articulated within colonial or indigenous capitalism. Visvesvaraya, on the other hand, was unconcerned with the question of socialism or capitalism; for him industrialization was a must. He was a huge proponent of auto industry, and he championed a detailed proposal for the development of an auto manufacturing facility through Saha’s *Science and Culture*. In this endeavor Visvesvaraya was operating through the Indian shipping magnate Walchand Hirachand. Saha disliked businessmen but defended the Visvesvaraya-Hirachand project on grounds that it was necessary to improve India’s technological level (Zachariah, 2005:255).

These differences in views of Indian capitalists reflected fissures within the Indian nationalist science-technology-economics matrix. Many on the nationalist left resented businessmen as collaborators with British during the war, who subordinated national goals to their own short term profits. In response, Indian business argued that they were furthering national interest through the development of national enterprise, while

³⁹ *Science and Culture*, 1938, Vol. 4., No. 5 also cited in Zachariah, 2005:238



complaining that British retarded the development of new industry. This precise view would be famously restated in 1993 by the so-called ‘Bombay Club’ during India’s economic reforms.

Birla as well as Hirachand saw the war as good opportunity to launch an Indian auto industry. Birla was initially a director in the Visvesvaraya-Hirachand project, but later pulled out citing delays from government interference. Birla wrote to Hirachand with complaints about the delays and proposed location in Mysore, before adding “Besides , as I told you, I am going to go ahead with my own project, quietly and without any fuss or propaganda. I cannot therefore conscientiously participate in your project” (Mukherjee, 2002). Birla then entered into negotiations with Lord Nuffield of the Morris Auto Company in the UK. This generated immediate backlash in the nationalist media, as seen in the *Hindustan Standard* editorial below:

“If the economic future of the country is to be safeguarded public indignation must be roused against the **sinister deal with foreign capital**. Have the Birlas entered into an **entente with foreign capital** just when the National Planning Committee has expressed itself against such a course? **It is deplorable that Birlas who are so closely associated with the Congress High Command should be involved in such a sinister and shady deal.**”⁴⁰

These representations of foreign and domestic capital can be summarized as follows, with the arrows representing tensions in conflicting categorizations:

Cognitive and Cultural Categories of Capitalist Legitimacy in Inter-war India (1914-1947)

Illegitimate Indian economic actors <i>Traditional: nationalist and scientific socialist view of Indian capital as comprador collaborators (e.g. Saha; Hindustan Times editorial)</i>		Legitimate Indian economic actors <i>Modern: scientific socialist view of Indian capital as potential captains of industry (e.g. Visvesvaraya)</i>
Illegitimate foreign economic actors <i>Traditional: ‘neo-imperial instruments’ (e.g. Hindustan Times editorial)</i>		Legitimate foreign economic actors <i>Modern: potential ‘technology providers’ (e.g. Visvesvaraya automobile plan)</i>

The editorial highlights the complex points of congruence and tension between and *within* otherwise competing systems of thought. First, there were tensions between the imperial, Gandhian and scientific socialist views of emerging Indian capitalists.

⁴⁰ Cited in Zachariah, 2005:259.

Additionally, scientific socialists were *internally* divided on the issue of domestic private capital: were they comprador collaborators or potential captains of industry? This internal division would become a major point of contention after India won independence and scientific socialists under Nehru took control of the state industrial policy apparatus.

There were broader points of conflict as well. Both scientific socialists as well as imperial actors shared similar understanding of what constitutes ‘civilized life’ in India that sharply contrasted with Gandhi’s glorification of the simplicity and purity of low technology systems of production. However, imperial and scientific socialist modernizers ascribed radically different causes to India’s ‘backwardness’ -- deindustrialized by the British as argued in drain theory versus natural state as in classical political economy -- and hence different solutions: intensive application of science and technology aimed at catching up versus a focus on areas of natural – low tech - comparative advantage.

Another *Science and Culture* editorial continues by expanding beyond the specifics of the single industry of automobiles to weigh in on the role of ‘traditional culture’ in another attack on Gandhian thought: “if this is ever to enter the path of progress, her younger generations must be cut adrift from many medieval ideas and traditions which are installed into their minds in the name of religion, philosophy, custom, tradition or history. Only a good dose of scientific education can undo the evil influences to which young minds are subjected.”⁴¹ The editorial shows how the cultural categories created by British imperialism shaped the cultural schemas that modernizing socialist-scientific actors deployed to both counter imperialism and attack Gandhian thought.

The Complexity of Modernity and Anti-modernity in Gandhian Thought

Gandhi, like the colonial authorities, rejected the notion of ‘modern’ large-scale industrialization in India. However, contrary to the arguments of his critics, Gandhian thought “did not operate through claims to being anti-modern” (Zachariah, 2005:158). The reality was that during this period it was impossible “to base an argument...on a rejection

⁴¹ ‘The Next Twenty-five Years of Science in India, in *Science and Culture*, 1938, Vol. 4., No. 1 also cited in Zachariah, 2005:238.

of ‘modernity’” given that the conception of ‘modernity’ was “extremely empowering, and carried with it extremely positive connotations for a people called ‘primitive’ and ‘backward’” (Zachariah, 2005:159). These terms were well recognized to political audiences of the time and “their emotive significance had already been well established...A legitimate position, therefore, had to be based on something which was ‘modern’, but not ‘Western’” (Ibid). This called for creative interpretation of the meaning of modernity. Contrary to charges that his vision was not conducive to modern life, Gandhi “... claimed...to offer solutions which were more modern than industrialization-based models of society, and to challenge the criteria of modernity which they saw as somewhat uncritically borrowed from the West” (Zachariah, 2005:158). Western systems were viewed as too materialist with insufficient attention to the moral and ethical elements of society that characterized the purity of India’s past. Gandhi created a conceptual system that was strategically located between capitalism and socialism, which he viewed as equally Western, a powerful charge against both imperialism and nationalist scientific socialism.⁴²

Gandhi constructed a conception of ‘traditional’ Indian society, which required “creative borrowing from and re-interpretation of ‘Hindu’ traditions as being ‘modern’ before the West was ‘modern’.” This is the creative agency in Sewell’s (1992) framework as well as in pragmatist strands of the new institutionalism (cf. Herrigel, 2008; 2010). Gandhi’s ‘creative borrowing’ paralleled the nationalist scientist-industrialist Prafulla Chandra Ray’s efforts in producing the two volume *A History of Hindu Chemistry from the Earliest Times to the Middle of Sixteenth Century* in 1901 and 1908. Tradition and technology were intertwined at the core of the systems of meaning and thought in Gandhi’s *Hind Swaraj* and Ray’s *A Hindu Chemistry*. Ray combined material from both ancient Sanskrit texts and European writing to argue that science was far ahead of Europe in the pre-Enlightenment era, citing novel discoveries and the development of innovation

⁴² Nehru also selectively appropriated specific elements when constructing his own system of thought. He admired Russian Revolution and subsequent Soviet planning, but did not want to adopt the system wholesale. Instead he borrowed the elements he found most appealing – the central role of the state, norms of socio-economic equality of socialism, scientific rationality of planning, technological imaginary of large-scale industry – while rejecting others, most clearly totalitarian forms of political control in favor of Western democracy.

chemical preparations that preceded and informed not only early European but also Arab and Asian societies. The technological basis of Gandhi's village industry was similarly not anti-modern, since it was based on production expertise that was superior to Europe during the period when Indian artisanal products were extremely sought after on world markets, attracting traders from Europe and the Middle and Far East. However, these techniques had been lost through the destructive violence of British colonialism. The technological imaginary that fuelled–Gandhi's village society provided the means of getting it back.⁴³

Gandhi's system was further complicated given that he was not against machines per se, but opposed “the ‘craze’ for labor saving devices” amidst India's high rural unemployment. For example, he thought the Singer Sewing machine was ‘one of the few useful things ever invented’ precisely because it empowered small-scale home-based production (Zachariah, 2005:157).⁴⁴ Instead, Gandhi was concerned about the type of human subject that Western modern technology produced. “Technology did not signify [physical] machines alone, but signified as well as complex web of social, economic, cultural, and political practices aimed at accumulating capital and fabricating possessive individuals” (Prakash, 1999:214), as Gandhi made clear in comments on Dutt's *Economic History of India*:

When I read Mr. Dutt's *Economic History of India*, I wept; and as I think of it again my heart sickens. It is machinery that has impoverished India. It is difficult to measure the harm that Manchester has done to us. It is due to Manchester that Indian handicraft has all but disappeared...Machinery has begun to desolate Europe. Ruination is now knocking at the English gates. Machinery is the chief symbol of modern civilization; it represents great sin.⁴⁵

The Western path to modernity had dire moral implications for Gandhi.⁴⁶ Nehru saw India's future lying in industrialization, but Nehru's path to development did not follow

⁴³ These technological imaginaries are “‘imagined forms of social life and of social order that center on the development and fulfillment of innovative scientific and/or technological projects’... Sociotechnical imaginaries are at once descriptive of attainable futures, and prescriptive of the futures that ought to be attained” (Jasanoff et al, 2007). That is, they are comprised of both normative and positive elements.

⁴⁴ Science and technology is open and amenable to multiple political positions, as stressed in Chapter Two.

⁴⁵ *Hind Swaraj*, pp. 93-4, cited in Prakash (1999:216).

⁴⁶ “This assumption that moral and material progress were crucially related permeated both imperialist and nationalist thinking...One of Gandhi's stronger arguments was that, unlike other socio-economic systems,

the teleological trajectory offered by modernization theories based on England's industrial revolution with its brutal class warfare and exploitation. Nehru envisioned an alternative path to industrial development rooted in India's own history and manufacturing experience and organized under Fabian socialist principles of state-owned heavy industry and crucially for this dissertation, close regulation of private domestic *and* foreign capital participation.

Finally, one of the most powerful charges by scientific socialists was that contrary to Gandhi's claims, his ideas were not in fact truly indigenous. This however was a defensive tactic, as one of Gandhi's strongest claims had long been that socialist-scientists positions were not in keeping with Indian tradition and were in fact Western, which had powerful meaning given the broad anti-imperialist stance as a rejection of the West. The latter was a powerful weapon against the 'modernizers', as Gandhi very effectively "drew on old anxieties regarding cultural disruption or what constitute[s] legitimate borrowings from the 'West'" (Zachariah, 2005 165). Chapter Eight shows how these anxieties persisted over time and would be exploited to great effect by the Hindu nationalist Bharatiya Janata Party (BJP) which emerged as the Congress Party's main political challenger in the 1990s.

This strategic use of historical anxieties to construct and contest cultural schemas was a common discursive tactic. The scientific-socialist defense rested on the universal validity of science, particularly when put to work towards material and intellectual progress. This was directly aimed at countering Gandhian charges of an imbalanced focus on material versus ethical and spiritual conceptions of progress in socialist-scientific thought. This was coupled with an offensive against the 'backwardness' of the village and the inability of cottage industries to move the nation forward: reliance on "the philosophy of the

the society he envisaged would not delink the moral and material aspects of human progress, and that the moral would lead the material. His strongest opponents in the nationalist movement were equally convinced of the interrelatedness of the two; but for them, most often, the material would have to lead the way to the moral." This relationship between the moral and material should not be surprising, as it is worth noting that modern economics is laced with normative imperative, as see in clearly with the role of efficiency considerations in welfare economics. To summarize the causal relationships between moral and material progress in the three competing systems of thought: *Gandhian system: moral → material*; *Nehruvian scientific socialism: material → moral*; *Imperial system moral and material co-evolve*.

spinning wheel and bullock cart” ignored the “techniques of modern civilization” which was inexcusable “if India is to grow into a powerful world-entity like the USA, Soviet Russia, and the countries of Western Europe...A nation, however great its moral and spiritual qualities may be, can not hope to win battles with bows and arrows against tanks and artillery. In this world of strife and competition, if a nation wants to survive, it must develop the latest techniques of civilized existence”.⁴⁷ Scientific socialists that European civilization in fact borrowed from the East, so seeking Western science was simply a way of restoring the order and “reclaiming the fruits of past achievements” (Zachariah, 2005:240). The colonial project and much of the resistance was about an attempt to impose Western views on Indian society. Western science needed to be simultaneously opposed and appropriated in order to launch a national industrialization project. This strategic appropriation of history epitomizes the nationalist contradiction and the complexity of cultural discourse.

V. The National Planning Committee

By 1937 the Indian National Congress was forming provincial governments with full independence and state control appearing increasing inevitable. The Congress Working Party Committee met in August and resolved to appoint a Committee of Experts to address the issues of social development, reconstruction and planning and crucially, to draw up an “all-India industrial plan”. Subhas Chandra Bose was elected Congress President and declared in his February 1938 presidential speech that the national government would “adopt ‘a comprehensive scheme for gradually socializing our entire agricultural and industrial system in the sphere of both production and appropriation...on the advice of a National Planning Commission’ ” (Chatterjee, 1993:200). Bose convened an October meeting of Industry Ministers from the Congress’ provincial governments, which was followed by the announcement of a National Planning Committee with fifteen members drawn from different areas of expertise. It included five scientists⁴⁸, four

⁴⁷ *Science and Culture* Vol. 4, No 10.

⁴⁸ The NPC scientist-members included: Meghnad Saha, A.K. Saha, Nazir Ahmed, V.S. Dubey and J.C. Ghosh.

leading merchant-industrialists⁴⁹, two economists⁵⁰ and three nationalist politicians⁵¹ including Jawaharlal Nehru.

Despite the ferocious criticism of Gandhi by the younger generation of modernizers, Gandhian ideas remained resilient in the wider policy domain and much of the debates on industrialization within the NPC continued to reflect the conflict and contestation between the two groups. Leadership of the Committee would thus prove important in deciding the policy direction of the NPC and by extension the soon-to-independent India. The scientific-socialist Meghnad Saha was enamored by the close Soviet-style relationship between scientist and politician and sought the ear of nationalist politicians whom “he found frustratingly naïve about industrialization” (Prakash, 1999:194). Saha was worried that the Indian National Congress Working Committee’s “support for a mixed economy and cottage industry” meant that they had become “dangerously captive to Gandhian ideas.” This apparent support stemmed from the Congress’ strategic rhetoric of nationalist mobilization, but as Chatterjee (1993:201) argues, the Congress leadership as well as wider Indian elites had long accepted the central role of industrialization for modern development. However, the Congress party’s political strategy of mass movement against imperial rule necessitated the use of Gandhian ideas of “machinery, commercialization, and centralized state power as the curses of modern civilization, thrust upon the Indian people by European colonialism. It was industrialism itself, Gandhi had argued, rather than the inability to industrialize that was the root cause of Indian poverty.” This had long been a staple of Congress mobilization. “But now that the new nationalist state was ready to be conceptualized in concrete terms, this archaic ideological baggage had to be jettisoned” (Ibid).

Saha’s angst was relieved by finding “sympathetic ears” in Subhas Chandra Bose and Jawaharlal Nehru (Prakash, 1999:194). Saha invited Bose to give a speech to the Indian

⁴⁹ The merchant-industrialist members included: Purushottamdas Thakurdas (one of the main forces in the formation of FICCI along with GD Birla), A.D. Shroff (banker and director of the Tata Group), Ambalal Sarabhai (Ahmedabad-based, Gandhi supporter) and Walchand Hirachand (founder of India’s first shipping, aircraft and automobile production).

⁵⁰ The economist members of the NPC included: K.T. Shah, Radhakamal Mukherjee and M. Visvesvaraya.

⁵¹ These included J.C. Kumarappa, Gandhi’s economic interlocutor, the labor leader N.M. Joshi and Jawaharlal Nehru.

Science News Association in which the latter trumpeted the importance of large-scale industrialization for India's future and crucially, confirmed that "what was needed was a 'far reaching co-operation between Science and Politics'" (Prakash, 1999:195).

We want, first and foremost, the aid of science in this task [of industrialization and national reconstruction]... And **national reconstruction will be possible only with the aid of science and our scientists**... Though I do not rule out cottage industries and though I hold that every attempt should be made to preserve and also revive cottage industries wherever possible, I maintain that economic planning for India should mean planning largely for the industrialization of India. **Industrialization, as you will all agree, does not mean the promotion of industries or manufacturing umbrella-handles and bell-metal plates, as Sir John Anderson would have us believe.** I gratefully recognize the fact that your magazine *Science and Culture* has helped to direct intelligent thoughts in this country towards the problems of industrialization. The articles published periodically on electric power supply, flood-control, river-physics, need of establishing a National Research Council, etc., have been highly illuminating and instructive. I would now like to make a few observations on the principles of national planning: (1) Though from the industrial point of view the world is one unit, we should nevertheless aim at **national autonomy**, especially in the field of our principal needs and requirements. □ □ (2) We should **adopt a policy aiming at the growth and development of the mother industries**, viz., power supply, metal production, machine and tools manufacture, manufacture of essential chemicals, transport and communication of essential chemicals, transport and communication industries, etc.⁵²

Bose later returned the favor by inviting Saha to attend a meeting of the National Planning Committee, where Saha met Sir M. Visvesvaraya, who for twenty years had championed the need for India to use science to develop agriculture and industry to propel itself into the modern world, and believed that the state had a central role to play through economic planning. Though Visvesvaraya was clearly a good choice to lead the Planning Committee Saha convinced Bose to choose a nationalist with political weight. "Saha wrote to Nehru, asking him to head the planning committee instead. 'On behalf of the Indian scientists, I would appeal to you to accept the chairmanship and guide the deliberations of the committee'" (Zachariah, 2005:195).

This was a crucial moment in the emerging link between modernizing nationalist politicians and scientific elites. "Nehru was an apt choice. He was not only the most important nationalist leader after Gandhi, but also the most uncompromisingly modern of all the Congress leaders. He needed no convincing of the central importance of industrialization, science, and planning for the nation" (Prakash, 1999:195-6). Nehru's

⁵² Speech to the Indian Science News Association, 21 August 1938, Calcutta.

http://nextfuture.sriaurobindsociety.org.in/apr09/nfapr09_insp%20thought.htm (Accessed April 9, 2012)

belief in the power of modern science was complete, as this excerpt from his address to the Indian Science Congress makes clear:

...science is the spirit of the age and the dominating factor of the modern world. Even more than the present, **the future belongs to science** and to those who make friends with science and seek its help for the advancement of humanity...Though I have long been a slave driven in the chariot of Indian politics, with little leisure for other thoughts, my mind has often wandered to the days when as a student I haunted the laboratory of that home of science, Cambridge. And though circumstances made me part company with science, my thoughts turned to it with longing. In later days, through devious processes, I arrived again at science, when **I realized that science was not only a pleasant diversion and abstraction, but was of the very texture of life, without which our modern world would vanish away.** Politics led me to economics and this led me inevitably to science and the scientific approach to all our problems and to life itself. **It was science alone that could solve these problems** of hunger and poverty, of insanitation and illiteracy, of superstition and deadening custom and tradition, of vast resources running to waste, of a rich country inhabited by starving people.⁵³

Nehru's speech highlights his "meaningful reappraisal of science as a nationalist." This was a "Much more expansive view of science than its conception as theoretical discoveries...Nehru's view projected science as a method that could be used to order politics and economics as to understand nature" (Prakash, 1999:195-6). His understanding epitomized the socio-technical imaginary fueling his system of thought.

The mandate prepared to guide subcommittee work similarly reflected the rise of 'rational' planning as the means through which the new Indian state would address its development challenges:

Planning under a democratic system may be defined as the **technical co-ordination by disinterested experts** of consumption, production, investment, trade, and income distribution in accordance with social objectives set by bodies representative of the nation. Such planning is not only to be considered from the point of view of economics and the raising of the standard of living, but **must include cultural and spiritual values** and the human side of life.⁵⁴

The statement not only reflects the dominance of the socialist-scientific approach to planning but the strategic blending of positive and normative elements that revealed the complexities of the scientific socialist cultural schema. Nehru later wrote of his experience on the NPC: "We had avoided a theoretical approach, and as each particular

⁵³ Pandit Jawaharlal Nehru, "The Indian Science Congress", *Science and Culture*, Vol. 3, No. 7, January 1938.

⁵⁴ Cited in Prakash 1999:197-8; Zachariah, 2005:224.

problem was viewed in its larger context, it led us inevitably in a particular direction. To me the spirit of cooperation of the members of the Planning Committee was particularly soothing and gratifying, for I found it a pleasant contrast to the squabbles and conflicts of politics' ” (Chatterjee, 1993:201).

The committee proceeded to push large-scale industrialization against Gandhian ideals of cottage industry, and the resulting conflicts were clear in exchanges between Nehru and J.C. Kumarappa, effectively the representative of Gandhian economics – if not the Mahatma himself -- on the NPC. Kumarappa challenged the authority of the NPC to engage in industrial planning, since as he claimed, the Congress' priority “was to restrict and eliminate modern industrialism” (Chatterjee, 1993:201). Nehru countered by asserting that most NPC members believed in the promotion of large-scale industry, assuming it would not ‘come into conflict with the cottage industries’. Nehru went on to charge that “Now that the Congress is, to some extent, identifying itself with the State [as opposed to against the colonial state as had been the nationalist position for the past seventy years] it cannot ignore the question of establishing and encouraging large-scale industries...[and] it is not only within the scope of the Committee to consider large-scale industries, but it is incumbent upon it to consider them” (Ibid:202).

Gandhi himself was also unhappy with the work of the NPC, and wrote to Nehru questioning whether the NPC was working within the mandate of Congress, telling Nehru in no uncertain terms “ ‘It has appeared to me that much money and labour are being wasted on an effort which will bring forth little or no fruit.’ Nehru in turn did not conceal his impatience with such ‘visionary’ and ‘unscientific’ talk and grounded his own position quite firmly on the universal principles of historical progress that underpinned the scientific socialist system of thought: ‘We are trying to catch up, as far as we can, with the Industrial Revolution that occurred long ago in Western countries’” (Ibid). While the debate in the committee subsided, it persisted in the public domain where much of the political contestation took place. Gandhi later revealed his dissatisfaction with Kumarappa’s challenge to the scientific socialists in the latter’s article “Public Costs of Centralized Production” published in the August 1941 edition of *Gram Udyog Patrika*,

the monthly journal of the All-India Village Association that Gandhi founded in 1934 upon leaving the Congress. Gandhi's criticism of Kumarappa in a letter written on August 12 1941 provides crucial insight to the strategic construction of nationalist systems of thought, as well as the link they entailed between economics, technology and nationalism:

*'My Dear KU[marappa],
Your article on industrialization I consider weak. You have flogged a dead horse. What we have to combat is the socialization of industrialism. They instance the Soviet exploits in proof of their proposition. **You have to show, if you can, by working out figures that handicrafts are better than power driven machinery products.** You have almost allowed in the concluding paragraphs the validity of that claim.
Your's,
BAPU*

VI. Conclusion

This chapter presented an analysis of the fractures that emerged in Indian economic nationalism during the inter-war period. It showed that even with the massive disruptions brought about by World War I and the collapse of the liberal economic regime constructed by British hegemony during the Great Depression, the British continued to dictate the terms of the Indian development debate with discursive rules that worked in the favor of British economic actors and British firms in colonial India. In order to gain legitimacy, protagonists' arguments had to be framed in the 'rational', 'scientific' language of economics. Gandhi effectively constructed a utopic cultural category heavily imbued with religiously inspired historical meaning. His valorization of 'traditional' village life had deep resonance with the masses and the implications for industrialization appealed to some colonial authorities' beliefs in India's natural inferiority, but left him open to strong criticism from elite 'scientific-socialist' nationalists who saw 'modern' technology and the solution to India's perceived backwardness.⁵⁵

⁵⁵ It is essential to point out that these were strategically constructed systems of economic thought. They had to be coherent and rooted in legitimate terms, but nevertheless these were fabricated to serve specific political purposes. Gandhi wanted to advance a system "of non-violent, non-exploitative, humanistic and egalitarian economy opposed to Adam Smith's system of free economy, Karl Marx's system of violent socialist economy and Keynes' (*sic*) system of regulated economy." Nehru similarly sought to construct a system that incorporated the material and intellectual advantages of socialist planning without the totalitarian repression of the Soviet state.

Ultimately, the pinnacle of the debate was directly between Gandhi and Nehru. Despite the differences in their nationalist perspectives, Gandhi and Nehru were united by their critique of the West. Gandhi opposed the effect of Western science and technology, and the labor saving machines it produced, on Indian society and economy. However, the spectrum of their positions was more complex than simple dichotomies of modern-antimodern, centralized state-decentralized community, or elite-subaltern might suggest. On one hand it is reasonable to focus on the oft-posed gulf in conceptions of technology and modernity in Nehruvian and Gandhian thought. However, as Prakash (1999:203) argues, it is imperative to assess their differences within the broader ambit of anticolonial nationalism, which provided the cultural context within which both leaders formulated and advanced their ideas. Both Nehruvian and Gandhian critiques of Western modernity were articulated in the historical context of anticolonial nationalism. This nationalism – both Gandhian and Nehruvian versions – positioned itself in opposition to *Western* modernity, though not to the idea of modernity itself. These actors had to construct a uniquely '*Indian*' modernity. This was an essential task for state building. "To be a nation in the international system of states meant that the nationalists had to both constitute a modern nation and claim that it was irreducibly Indian" (Prakash, 1999:225). This highlights the crucial importance of culture and social meaning in the battle of ideas, a dimension that is often downplayed or ignored in the literature on the role of ideas from across different strands of the new institutionalisms (Goldstein and Keohane, 1993; North, 2005; Hall, 1993; Blyth, 1997; Blyth, 2002; Beland and Cox, 2011; Dobbin, 1993).

Nevertheless there were strong points of difference. Nehru expressed contempt for the idealized view of the village that Gandhi expressed to Nehru in a letter in 1945 when India was on the verge of gaining Independence. Nehru thought that by this point Gandhi may have outgrown the anti-industrialism of his 1909 publication *Hind Swaraj*, only to find that in Gandhi's mind 'the old picture still remains intact' (Ghose, 370). Nehru's reaction was strong. He wrote back to Gandhi 'A village is backward intellectually and culturally and no progress can be made from such an environment.' He further told Gandhi that found *Hind Swaraj* to be "completely unreal" even from when he first read it

20 years earlier.⁵⁶ The future lay in cities and industry was inevitable if poverty is to be removed and progress achieved. Prakash (1999) suggests that ultimately victory in this battle had less to do with political skill than with *cultural and ideational resources*, and in this sense Gandhi was under-equipped, an outcome that was reflected in the firmly scientific socialist direction that the Congress followed in the National Planning Committee and upon independence.

Once again the cultural categories of capitalist legitimacy that Gandhi and Nehru's systems of meaning and thought prescribed can be summarized as follows below.

Nehruvian and Gandhian Cultural Categories of Capitalist Legitimacy (~1930-1947)

<p>Illegitimate Indian economic actors <i>Traditional:</i> <i>Nehru's view of village industry as 'backward' and private Indian capital as exploitative.</i></p> <p><i>Gandhi's view of 'the socialization of industrialism' and state-led industrialization as detrimental for Indian development (moral and material).</i></p>	<p>Legitimate Indian economic actors <i>Modern:</i> <i>Gandhi's view of village industry as supporting a 'true' Indian modernity</i></p> <p><i>Nehru's view of state-ownership and control of heavy industry as developmental, following the Soviet model.</i></p>
<p>Illegitimate foreign economic actors <i>Traditional: 'neo-imperial instruments'</i> <i>Nehru and Gandhi shared concerns about foreign capital as neo-imperial.</i></p>	<p>Legitimate foreign economic actors <i>Modern: potential 'technology providers'</i></p>

Thus far the dissertation has demonstrated the crucial link between economics, technology and nationalism, and how these are laced with purpose and meaning by strategic nationalist actors. The next chapter illustrates how these three elements became mutually constitutive of state and capitalist preferences towards foreign capital and industrialization as India attained independence and began pursuing import substituting industrialization policies. It does so by analyzing the role of Indian capitalists in the planning and policymaking process, and illustrates the value of this approach through analysis of cross-national variation in meanings of development and modernity and the

⁵⁶ Prakash (1999) notes that this response was a blow to Gandhi, given the closeness of their personal relationship.

implications for preferences towards foreign direct investment in India and Brazil. The chapters to come show how these debates on the meaning of modernity continue to shape preferences and influence contemporary policy debates on the appropriate role of foreign investment in Indian development.

CHAPTER 6

The Political Economy of Foreign Direct Investment: Constructing Economic Interests and Policy Preferences in Post-war India and Brazil

“...the [Indian] business community is not prepared to go to the same lengths as its counterpart in Latin American countries in attracting foreign investment. The average Indian business prefers foreign investment which does not entail foreign overall control.” -- *Embassy cable from US Consular Officials to the Secretary of State, 1958.*

“...it is not possible for India, unfortunately, to offer the same facilities and concessions to foreign investors as is done by some of the Latin American countries.” -- *R.D. Birla of the Birla business house (India's largest business group) in conversation with US Consular Officials, 1958.*

I. Introduction

This chapter of the dissertation explores the tension between rational-materialist and cultural-constructivist theories of political economy by comparing the process of foreign direct investment policy preference formation in India and Brazil. It identifies the sources of the radically different preferences towards foreign direct investment indicated by the two quotes above in the contrasting social experiences of Brazilian and Indian economic and political actors. The chapter provides further empirical support for one of the main arguments of the dissertation that economic actors' policy preferences cannot be deduced from economic actor's socioeconomic structural position.¹ Preferences are shaped by cognitive and cultural schemas, which are defined in the dissertation as rationalized causal ideas imbued with historically salient social and political meaning. Economic interests and policy preferences thus are not automatically given; they are formed through historically embedded sociopolitical processes that shape the experiences, interpretive frames and worldviews of economic and political actors.

¹ Chapter Two argued that the conventional theoretical approach to determining policy preferences in comparative and international political economy is to derive economic actors' policy preferences from their structural position. These theories typically predict that domestic incumbent firms will resist liberal FDI policies and oppose multinational entry, particularly in imperfectly competitive industries that generate “supernormal” monopoly profits such as automobiles (cf. Tirole, 1988). The rationale lies with the expected competitive advantage arising from MNCs' firm-specific resources and capabilities that threaten to reduce the income and market share of their domestic competitors (Barney, 1991; Caves, 1996). Deriving preferences over economic policy from actors' structural location is a key innovation of “open economy politics” and is vigorously defended as the standard for comparative and international political economy (Frieden & Martin, 2002; Lake, 2009).

As this chapter will show, Indian and Brazilian business and government actors occupied similar structural positions but had radically different preferences towards the entry of multinational firms. This was so even when firms from both countries had similar financial capacities and organizational capabilities and similar opportunities to enter new sectors as well as to expand as suppliers to multinational firms. How can this variation be explained?

The chapter places this question and the wider argument of the dissertation in cross-national comparative perspective by examining post World War II industrial development efforts in India and Brazil. By employing the method that George and Bennett (2005) have referred to as “structured, focused comparison” it shows how, despite occupying similar structural positions in the global political economy, having similar development goals of transforming their countries from primary commodity producers into modern industrial powers, and facing similar financial, technological and other material constraints in promoting manufacturing industry, India and Brazil adopted different approaches to regulating foreign capital. The institutions governing FDI were different even as both countries adopted the same broad economic policy paradigm of import substituting industrialization that prevailed across most of the post-war developing world.² Further, these differences were not limited to government policy; Indian and Brazilian business actors had different interpretations of the role of FDI, which led them to pursue different strategies in engaging with foreign firms. This variation in firm strategy emerged despite their similar size, organizational capabilities, industrial and sectoral location, and the fact that they faced the same global economic environment characterized by the aggressive post-war expansion of US multinational firms. These contrasting business and government preferences cannot be explained by conventional rational-material approaches that assume that economic interests and policy preferences are structurally given.

² The definition of institutions moves beyond formal ‘rules of the game’ (North, 1991) to include informal norms and “sets of regularized practices with a rule-like quality, [that] structure the behavior of political and economic actors” (Hall, 2010:1). The formal and informal dimensions of institutions are increasingly becoming the focus of much work in institutional theorists across economics, political science and sociology (cf. North and Denzau, 1994; North, 2005; Greif, 2006).

The chapter describes how these differences emerged from historically rooted variation in beliefs about the role of foreign versus domestic firms in the industrial development and wider modernization project. These beliefs informed the development of distinct cognitive and cultural schemas that imbued causal ideas linking FDI with industrial development outcomes that were shared by Indian and Brazilian actors and indeed, prevailed in the post-war period, with contrasting socio-cultural meanings. These rationalized causal ideas were underpinned by historical experiences that ascribed different social meanings to the role of foreign capital in the pursuit of industrial modernity. Brazilian business and government actors generally welcomed multinational corporations as collaborative partners who could play a central role in capital accumulation and industrialization. Their Indian counterparts also recognized and accepted the rationale of foreign firms as crucial sources of technology but viewed them as neo-imperial instruments, and hence were much more wary of engaging with multinationals (Evans, 1979; Sikkink, 1991; Shapiro, 1994; Kidron, 1965; Adler, 1987; Encarnation, 1989).³

The chapter draws on material from US and Indian government and business archives to reveal variation in the content and salience of nationalist narratives, and in the social meanings that key actors ascribe to the causal ideas that prescribe developmental roles to FDI. ⁴ Together these constitute the elements of preference formation that were elaborated in Chapter Two of the dissertation. This chapter shows how they shaped Indian and Brazilian business and government actors' conceptions of their national industrialization projects and their preferences towards foreign investment. The implications of this variation are reflected in contrasting FDI policies and ensuing patterns of ownership and control in the automobile industries that were heavily

³ Consistent with the argument in other parts of this dissertation, particularly Chapter Five on debates around the meaning of 'development' and 'modernity' in India, there were important fractures in these otherwise dominant cultural schemas that shaped Brazilian and Indian actors preferences for foreign investment. These fractures and the political contestation that they generated will be further elaborated as this research is developed beyond the dissertation.

⁴ Much of the archival material used in this chapter draws on the US State Department materials from the National Archives (Record Group 59) in College Park, MD. It primarily consists of cables, letters and other forms of correspondence sent back and forth between the US Embassies and Consulates in India and Brazil and the State Department in Washington DC.

promoted in both countries as part of the foundation of post-war industrialization. This pattern of variation did not just shape the way these industries emerged, it had crucial long-run effects on market share between foreign and domestic firms across the manufacturing sector in both countries. For example, the Indian automobile and pharmaceutical industries emerged from the post-war period largely controlled by domestic private capital while multinational firms dominated in Brazil, a pattern that has largely persisted through the more recent period of economic liberalization and globalization. The chapter thus builds on the arguments made in the previous chapters on the social, political and historical origins of FDI policy preferences and demonstrates the role of these preferences and the business politics they generate in shaping policy and market outcomes.

The rest of the chapter is organized as follows. Section II addresses case selection and methodology by identifying the structural similarities between India and Brazil that underpin the puzzle of their contrasting foreign investment preferences. Section III elaborates Indian business and government preferences towards foreign firms, building on the historical analysis that has been conducted in the previous chapters of this dissertation. Section IV then describes early industrialization in Brazil, identifying the historical sources of Brazilian economic actors' relatively congenial views towards foreign investment. Section V turns to the automobile case by showing how Indian and Brazilian policy preferences manifested in the development of the crucial automobile sector. Section VI provides a summary of the argument and introduces the forthcoming discussion on the period of economic liberalization in Chapters 7 and 8.

II: Structural Similarities, Socio-Historical Differences:

India and Brazil Compared

India and Brazil serve as excellent comparative cases to challenge ahistorical structural-deductive approaches to identifying the sources of FDI policy preferences. First, both countries entered the post-war period intent on pursuing policies that departed from the liberal free trade consensus of the pre-Depression era. Both economies had been oriented

around primary commodity exports throughout the nineteenth century – cotton, jute and tea in India, and coffee, sugar and rubber in Brazil – and both countries were embedded in mercantilist trade relationships dominated by British merchant firms. Thus India and Brazil occupied similar structural locations in the global economy in the period leading up to the Second World War and the beginning of their post war industrialization drive. This had implications for both domestic business *and* government actors in each country. This chapter recognizes these groups as having distinct incentives and structural positions by separately identifying the sources of business and government preferences amongst each set of actors in each country.⁵

Second, both India and Brazil found themselves in similar macroeconomic positions at the end of the Second World War as they struggled with fiscal constraints arising from weak balance of payments positions. Policymakers in both countries viewed these challenges through similar rationalized interpretive frames supplied by the economic theories that blamed these macroeconomic imbalances on excessive reliance on imports of manufactured consumer and capital goods, which they both attributed to their underdeveloped industrial sectors. Thus the solution in both countries was boosting domestic manufacturing efforts in industries where production output would substitute for imported goods so as to reduce hard currency outflows.⁶ This position was consistent with the model of import substituting industrialization (ISI) that was spreading across the developing world in the 1940s and 1950s. However, while this diffusion of ISI ideas may seem to fit the ‘world society’ model (Meyer et al, 1997), as the previous chapters have argued these ideas were interpreted, strategically reformulated and deployed in different ways based on local socio-political and historical contexts. This is aptly demonstrated in this chapter through the different ways in which FDI was regulated in India and Brazil within an otherwise similar ISI policy paradigm.

⁵ At the same time the analysis throughout the dissertation recognizes that these preferences are shaped through a variety of modes of interaction between business and state actors, such that processes through which the preferences of each group are not independent. It further recognizes that there may be crucial variation *within* each group, such as Brazilian domestic capital, as well as across groups.

⁶ Attempts to simultaneously increase foreign exchange inflows by exports entered the policy discourse later as the ISI model was initially fairly silent on the export issue. This is the subject of much of the voluminous literature comparing Latin American ISI with East Asian ELI (export-led industrialization).

The dynamics through which these macroeconomic weaknesses arose were also similar. By 1945 both countries had accumulated large war-related foreign exchange surpluses, only to see their current account balances turn quickly and dangerously negative shortly thereafter. Brazil accumulated US\$600m of reserves through raw material export receipts, import controls and shortages during the Second World War, which allowed the government to adopt an open import regime. Brazilian consumers responded accordingly, with motor vehicles and auto parts leading an explosion of import demand. However, by the end of 1947 foreign exchange reserves accumulated during the war were exhausted, creating fiscal imbalances as import demand exceeded foreign currency availability. Crucially, balance of payments concerns arose not just from booming imports, but from the fact that Brazil's trade surpluses and reserves were held in European currencies that were not readily convertible in the aftermath of the war and the destruction of the major European economies. Scarce US dollars were needed for most imports (Shapiro, 1994:30). This made a deep impression on Brazilian policymakers who interpreted this dependency as an outcome of Brazil's political weakness and marginal position in the hierarchy of nations and dependence on global powers. An overvalued *cruzeiro* exacerbated the hard currency shortage and led to licensing and hard currency rationing that favored capital goods and discriminated against 'non-essential' consumer durables such as automobiles.⁷

India similarly emerged from the Second World War with strong current account surpluses. Sterling balances held by the Reserve Bank peaked at 17.3 million rupees in April 1946, and India held 1.7 billion pounds of Great Britain's external liabilities, more than 50% of the UK's total foreign obligations. However, the British refused to honor their fiscal obligations to India, thus negating a balance sheet with a strong surplus and placing the country in a tight fiscal position right at the cusp of achieving independence. As in Brazil, this highlighted India's weak geopolitical status and dependence on global powers.

⁷ There was high consumer demand for automobiles, but auto imports placed a taxing toll on reserve position. This underpinned part of the rationale for the focus on developing an automobile industry by Brazilian policymakers.

The compromised macroeconomic positions of India and Brazil had important implications for the regulation of foreign capital as contemporary economic theories provided compelling causal ideas promoting FDI as a means to simultaneously achieve the goals of macroeconomic stability and industrial development. These theories suggested that foreign firms could bring in desperately needed hard currency to set up enterprises that produced manufactured goods for the domestic market thus simultaneously reducing internal demand for hard currency imports. This of course was the central rationale of import substituting industrialization as promoted by economists such as Raul Prebisch at the United Nations Economic Commission for Latin America (ECLA). However, addressing macroeconomic challenges and the desire to industrialize through foreign capital had crucial implications for the ownership and control of industry, which would lie at the center of contrasting preferences in India and Brazil.

Third, both countries faced similar challenges in dealing with the technological and organizational capabilities and market dominance of multinational companies (MNCs) as they attempted to establish and promote domestic industry in the inter-war period. Like other countries in the new post-war 'periphery', India and Brazil sought to rapidly industrialize at the precise historical moment when the phenomenon of foreign direct investment in manufacturing industry took off (cf. Wilkins, 1970; 1974; 2009). This period was characterized by aggressive outward expansion of MNCs, which in the wake of the Second World War and the destruction of European and Japanese industry, was led by American firms. The US government actively encouraged private American firms to invest overseas and used its growing post-war status as global hegemon to pressure foreign countries to create investment regulations that were amenable to US multinational expansion.⁸ These government policies and firm strategies were further facilitated by the rise of the liberal Bretton Woods international financial institutions. The IMF and World Bank became major sources of development finance in the post-war period, and their loan

⁸ There is a clear parallel with British enforcement of free trade and open investment regimes during its period of hegemony in the nineteenth century. This was a period when British capital dominated in both India and Brazil began to wane around 1914.

conditionalities typically demanded open investment environments.⁹ As a result, US private investment rose dramatically from \$11.8 billion in 1950 to \$29.7 billion in 1959. As will be seen below, Latin American countries were especially receptive to US MNCs, and US private investment in the region rose accordingly from \$4.6 billion to \$9 billion during this period (Sikkink, 1991:46).

Historicizing Variation in Economic Nationalism in India and Brazil

Finally, nationalism played an important role in shaping FDI policy preferences in both countries.¹⁰ However, to assert that India was less receptive to foreign capital because it may have been more ‘nationalistic’ than Brazil would oversimplify the concept of nationalism and ignore the way that nationalism developed and the role it played in both countries and render the concept analytically unhelpful. In fact, in this respect using Brazil as the comparator for India constitutes a ‘crucial case’ (George and Bennett, 2005) given that during this period Brazil was considered to epitomize economic ‘nationalistic’ post-war economic policies, especially relative to many of its Latin American peers. The argument advanced in this dissertation is that nationalism cannot be considered as a uni-dimensional variable or monolithic analytic category; analysts must consider variation in the way nationalism itself is socially constructed. As argued in Chapter Three, economic nationalism is “the attempt to link the idea of a nation to specific [economic] goals” (Abdelal, 2001:1). Nationalism is a “proposal of the content of national identity” that reflects society’s collective interpretations of the meaning of the nation, the path it should follow and the policies that societal actors believe will achieve the socio-economic goals that define the national project (Ibid). Thus the rationalized and socially meaningful causal mean-ends relationships between policies and outcomes that constitute actors’

⁹ While IMF and World Bank conditionalities were not as stringent nor strictly enforced in the post-war era (1945-77) as in the post oil crisis period as the Washington Consensus began to take hold (1977 onwards), the Bank and Fund still tended to push for open market policies. This is evidenced by India’s 1966 World Bank program (cf. Chaudry et al, 2004; Mukherji, 2012).

¹⁰ The discussion thus far has focused on the similar structural and material conditions and constraints that Brazilian and Indian actors faced in the early post-war period, albeit with an initial discussion of the causal ideas that shaped these actors’ interpretations of the challenges they faced. This section on economic nationalism addresses cross-national differences in the social meaning of foreign investment. It argues that while the causal ideas and structural-material constraints were similar; the social meanings with which they are imbued were different.

preferences are deeply embedded in Brazilian and Indian nationalist cognitive and cultural schemas. It is variation in the socio-historical evolution of these schemas that shaped differences Indian and Brazilian actors' preferences for foreign investment. The importance of these historical paths is lost in analyses that rely on conceptions of nationalism as a binary variable where magnitude, i.e. 'more' or 'less' nationalism, rather than content of nationalism is seen as determining regulatory and market outcomes. Instead, this analysis will consider variation in social meanings through historical narratives and cultural symbols.

The chapter reveals major differences in the content of the distinct nationalist cognitive and cultural schemas – anti-imperialist Nehruvian 'scientific socialism' and *desenvolvimentismo* or 'developmentalism' -- that became dominant in India and Brazil in the post-war period.¹¹ These schemas explain why economic actors in these countries displayed such contrasting stances towards FDI in the immediate post-war period. The preferences of both policymakers as well as industrialists in both India and Brazil were shaped by 'nationalism,' but 'nationalism' manifested in different ways due to variation in the social, political and historical experiences of actors in each country.¹²

Colonial experience played a major role. As Chapters Three and Five of the dissertation showed, Indian nationalism was strongly anti-imperial, having emerged as a counterpoint to colonial rule in the mid to late nineteenth century after the British Crown took direct control of the colony from the East India Company in 1857. The British 'Raj' functioned by superimposing colonial authority on pre-existing structures of economic trade and

¹¹ Brazilian *Desenvolvimentismo* referred to state-led industrialization to promote economic development and raise the national standard of living. It was associated both with the military and the Vargas and Kubitschek regimes in the pre-and immediate post-war periods. These are discussed further later in the chapter. The Nehruvian scientific socialist cultural schema rose to dominance through contestation with Gandhianism as well as the colonial orthodoxy in the 1930s and shaped the thinking of Indian nationalists as the country became independent in 1947. This is detailed in Chapter Five of the dissertation.

¹² The identification of these distinctions between India and Brazil is not to imply that there were no conflicts within each country between pro- and anti-FDI forces. In fact, the wider dissertation argues that it is precisely through these conflicts that cultural schemas are developed and preferences are shaped. Preference formation is thus a heavily contested social and political process. These conflicts are not detailed in this chapter in the interest of space, but suffice to say that the reason pro-FDI preferences 'won' in Brazil and anti-FDI preferences 'won' in India lies in the extent to which competing groups were able to articulate pro- or anti-FDI positions that generated greater salience in each country. This is articulated at greater length elsewhere in the dissertation.

political governance that had existed for centuries under pre-European empires. Chapter Three showed how strategic actors including Dadabhai Naoroji, M.G. Ranade and R.C. Dutt developed and deployed nationalist cognitive and cultural schemas built on the novel causal ideas of economic ‘drain’ theory in the late nineteenth century. Drain theory identified the mechanisms through which the British extracted vast economic resources from India and quantified both the abstract financial losses to the country as well as the real squalor, poverty and famines that the Indian people suffered. The causal ideas that comprised drain theory were explicitly oriented around promoting industrial development, which these actors believed was the key to modernity. These rationalized causal ideas were underpinned by salient and socially meaningful historical narratives of India’s glorious artisanal manufacturing tradition that pre-dated the British but was being destroyed by the laissez-faire economic policies that were enforced under colonial rule for the benefit of Lancashire producers. As such, advancing the interests of the Indian nation was seen in terms of *revitalizing* Indian manufacturing through the powerful cultural symbol of *Swadeshi* self-reliance and delinking from the imperial West, both the old colonizer in London and rising neo-imperial hegemons such as Germany, Japan and the United States. This view was strengthened by the negative experiences that Indian business actors had with British managing agencies, which sought to exclude emerging Indian capitalists from lucrative sectors of the economy, as described in Chapter Four.

Brazil, by contrast, had an entirely different colonial experience. Brazil was a slave-based agricultural commodity producing settler colony with a vast interior that was weakly governed by a colonial central government comprised of local elites. Crucially, these elites did not view the Portuguese state as an alien imperial power; in fact, when the Prince Regent Joao was forced to flee Portugal under British protection after Napoleon’s invasion in 1807, local landed and merchant elites welcomed his court and Brazil eventually declared itself an independent monarchy in 1822 under Joao’s heir Emperor Dom Pedro I. Kohli (2004:133) suggests that the “swift” and “painless” manner in which sovereignty was achieved left both nationalist sentiments and political organizations fragmented and with a ‘weak sense of national purpose’. However, independence did not automatically lead to a strong centralized state and clear national identity. The emperor’s

administration in Rio de Janeiro, which was very European and elite, was unable to establish a cohesive national polity -- including control over local bosses in Brazil's outer regions -- and eventually clashed with a growing military that had closer social connections within the wider Brazilian society.

As in India, industrialization and the pursuit of modernity became the center of social and political contestation. The emperor's reign coincided with an emerging conflict between the old slave-based sugar and rubber economy in the North-East that the monarch supported with mercantilist policies throughout the nineteenth century and the growing coffee and gold based economy further south in Sao Paulo that was clamoring for free trade to take advantage of Brazil's increasingly dominant position in global coffee production. The Brazilian military, which had been formed to resolve various border disputes with Brazil's neighbors, was instrumental in resolving this conflict, thus beginning what would become a continuous role in politics over the course of the next century. Brazilian military officers were inculcated with Comte's positivist ideas of science and technology as the basis of progress and saw the new coffee industry and the nascent manufacturing activities that were emerging along with it as more 'modern' than the old planter elite associated with Brazil's North-east sugar-slave-rubber complex that had been the mainstay of the economy since the sixteenth century (Kohli, 2004). The military eventually shifted its allegiance and the monarch was ousted in a coup on November 15, 1889 and forced to return to Portugal as Brazil declared itself a Republic.

The relative timing of these political developments in India and Brazil is worth briefly noting, as just four years after the nascent nationalist movement in India had coalesced with the formation of the Indian National Congress in 1885 Brazil had already achieved independence and Republican status with little struggle against its former colonial rulers. Brazil's transition from monarchy to republic began what would become a longstanding and increasingly institutionalized relationship between the military and economic elites that would shape the *type* of economic nationalism that would emerge, but as Kohli (2004) argues, the absence of a significant conflict in the attainment of independence did

little to cement a cohesive Brazilian national identity as a counterpoint to European imperialism relative to India's long independence struggle against the British.

Contrasting Emerging Attitudes towards Foreign Capital in the 'Old' Brazilian Republic with Late Colonial India (~1870-1914)

The launching of what would become known as the 'old' Republic led to a number of immediate institutional developments that significantly boosted business and nascent industry and had further implications for the type of nationalism that ultimately emerged.¹³ Labor migration was particularly important for understanding the historical roots of Brazilian industrial development and FDI preferences as it led to the influx of a new labor and entrepreneurial class. The demand for labor led coffee growers to push for new European immigration, which was strongly supported by the leaders of the new Republic.¹⁴ This pro-immigration policy led to a boom in the population of the Sao Paulo region as the population tripled to two million between 1870 and 1900, with a further 700,000 migrants arriving between 1900 and 1915 (Hanley, 2005:101). These migrants were primarily drawn from Southern Europe, particularly Italy, and were essential drivers of the late nineteenth century coffee boom. In addition to providing low cost labor to the rapidly expanding coffee industry they also became the urban proletariat and consumer class, and formed a significant proportion of the emerging entrepreneurial class.

The entry of these migrants to the Sao Paulo region in the late nineteenth century facilitated the development of the coffee complex that economic historians identify as lying at the heart of the Brazilian industrial development process.¹⁵ Immigrants brought technical skills and new knowledge of industrial machine works and applied it to the growing needs of coffee cultivation, including machinery and metalworking to produce

¹³ Radically new commercial legislation was passed by January 1890 leading to an explosion in the formation of joint stock companies, especially in Sao Paulo. More joint stock firms were created in the first few months of the year that had been launched since the introduction of the joint stock corporate form in 1849. This also led to the rise of the Sao Paulo stock and bond exchange known as the *Bolsa* (Hanley, 2005:84).

¹⁴ This preference for European labor persisted despite the existence of a labor surplus in the ex-slave sugar and rubber region of the Brazilian Northeast.

¹⁵ Many Brazilian economic historians such as Lewis (1999) and Hanley (2005) identify the classic work as Warren Dean's (1969) *The Industrialization of Sao Paulo, 1880-1945*.

agricultural implements, chemical firms for synthetic insecticides, plants that roasted the coffee for market and textile that wove rough sacks for coffee bean shipment (Hanley, 2005:4). This economic alliance was strengthened as entrepreneurial immigrants (overwhelmingly men) married into planter families, further facilitating the investment of proceeds from booming coffee boom into new areas of economic activity and cementing the pattern of co-evolution of agriculture and industry (Ibid). Further, many of these migrants were embedded in business networks in Europe and thus their entrepreneurial activities facilitated relationships between emerging business in Brazil and established commercial and financial networks in Europe. Thus at the turn of the century the Brazilian political economy – at least in dynamic industrializing Sao Paulo -- was characterized by a nexus between established coffee planters, migrant manufacturing sector entrepreneurs and European commercial firms and financiers. This was a feature of settler colonial capitalism, as distinct from the form of colonialism where a foreign authority conquers and rules over indigenous ‘natives’ as prevailed in India, that shaped the social meaning of foreign capital and blurred the distinction between foreign and domestic firms in Brazil.

The social background of early Brazilian industrialists also had important implications for their preferences towards foreign capital relative to their Indian counterparts. While Indian business elites understood themselves in the context of long standing ‘indigenous’ identities, given that they emerged from centuries old ethno-linguistic merchant-trading communities, many Brazilian business elites were either migrants or the children of migrants and identified much more with their counterparts in Europe than the indigenous and slave populations that they found upon arrival in Brazil. Rather than seeing Europe and the US as the home of foreign imposters, they conceptualized these places as either their native homes or “their recreational and cultural areas” (Kohli 2004:140). The latter point was important for state as well as business elites. That is, Brazilian political elites understood themselves as descendants of migrants with real or imagined links with Europe while, as Chapter Five argued, Indian political elites such as Jawaharlal Nehru emerged from families that were either local caste or community leaders or had been engaged in politics in the courts of the Mughal Empire that pre-dated the British in India.

Even Mohandas Gandhi came from a traditional Gujarati *bania* merchant community that had been engaged in overseas trade in the Arab peninsula for centuries. These differences in historical background and identity shaped the construction of radically different nationalist cultural schemas and preferences for foreign investment amongst business actors, as illustrated in Section IV.

These emerging preferences towards foreign investment had important effects on the type of trade and industrial policies that the new Brazilian Republic sought to pursue. Topik (1987) suggests that “Rather than viewing foreigners as threats to national sovereignty...Brazil’s dominant class and state administration....wanted to Europeanize Brazil and believed reliance on world markets was the best way to achieve that.”¹⁶ As discussed above, the Brazilian Republic was formed through a close alliance with coffee interests and in addition to supporting new business development around the coffee industry, was also committed to the laissez-faire approach that coffee producers and merchants favored. This led the new state to expand coffee production by opening new lands, attracting European labor and building railroads to provide expand production and trade deeper into the rich and fertile Sao Paulo hinterland.

Railroad expansion was especially crucial during this period, and the Brazilian state looked abroad for capital and technology and guaranteed profits to foreign investors prompting strong inflows of British as well as American capital and rapid growth of the railroad network. The opening of the Santos-Jundai line in 1867 connected the western hinterland of Sao Paulo to the sea provided a massive boost to agricultural production in the vast and fertile interior (Hanley, 2005:3). Coffee production grew rapidly with the number of coffee trees quintupling between 1880 and 1900, making Brazil the largest producer of coffee in the world, accounting for more than 50% of global supply (Hanley, 2005:3). British capital was thus viewed favorably as facilitating development and trade in the Sao Paulo region that would become the industrial center of twentieth century Brazil. By contrast, private British capital also built the railroads in India beginning in the mid-nineteenth century under the aegis of colonialism, but early Indian nationalists

¹⁶ Steven Topik (1987) *Political Economy of the Brazilian State*, p130, cited in Kohli (2004:144).

viewed British colonial guarantee of profits as a major source of the national drain.¹⁷ The railroads were seen as the instrument that facilitated colonial extraction by extending the reach of British merchant trade deeper into the Indian heartland rather than facilitating development by opening virgin hinterlands for production and trade as in Brazil. The British financed railroads were thus a source of major nationalist agitation and resentment in India, not as a harbinger of development and modernity as in Brazil.

Further, many economic historians of Brazil have pointed to the important role of foreign capital in the old Republic¹⁸ and just as in India private British capital was dominant.¹⁹ However, unlike India where British firms dominated jute, tea and sugar processing as well as most engineering industries, often to the *exclusion* of indigenous economic actors (as Chapters Three and Four showed), British capital in Brazil showed little inclination to expand their dominance of railroads, shipping and merchant trade to enter agricultural processing or manufacturing industry.²⁰ In fact, manufacturing accounted for just 2% of total British investment in the wider Latin America region (Evans, 1979:60; Hanley, 2005; see table below). Emerging Brazilian firms thus didn't share Indian firms' negative historical experience of competition with foreign companies in a discriminatory policy environment controlled by an external imperial power, and so did not perceive foreign firms as impediments to their growth in the same way as their Indian counterparts. Foreign firms held an entirely different social meaning for capitalists in Brazil. This

¹⁷ Further, by the turn of the century the Brazilian state began to find the burden of guaranteeing a minimum rate of return to foreign-owned railroads increasingly onerous and moved to nationalize the railroad, but opted to do so by contracting large overseas loans to purchase the railroads outright from their foreign owners rather than arbitrarily confiscating private property (Baer, 2001). The British colonial government also took over the railways in the first few years of the twentieth century and they were fully nationalized by the independent Indian state in 1951.

¹⁸ Dean (1969) and Topik (1987) are important proponents of this view. See Hanley (2005:109) for a partial critique that distinguishes foreign debt financing from equity financing in the turn-of-the-century Sao Paulo industrial sector, particularly those firms financed by the Bolsa (the nascent Brazilian stock market). There is a long standing debate in Brazilian historiography around this area that future versions of this paper will explore more deeply.

¹⁹ American and other foreign capital became increasingly important in the first few decades of the 20th century, first in utilities then increasingly in areas like chemicals.

²⁰ British ownership of the railroads and shipping firms did facilitate control of merchant trade and Brazilian commodity exports were used to purchase manufactures from the UK.

historical difference persisted even when Brazilian firms found themselves in the same industry as multinationals during the post-World War II industrialization boom.²¹

Distribution of British Investment in Brazil, 1875-1913 (% by sector)

	1875	1895	1905	1913
Government Loans	66	56	68	47
Railways	21	36	20	23
Public Utilities	9	4	5	22
Financial	--	--	1	4
Raw Materials	1	1	3	1
Industrial and Miscellaneous	3	3	3	3
Total (pounds-sterling)	30,928,000	92,988,000	122,903,000	254,812,000

Source: Hanley, 2005 Table 4.9

In addition to the different social and cultural meanings ascribed to foreign firms, there were fundamental differences in the collective understanding of the historical roles of manufacturing industry in India and Brazil. In stark contrast to India, a prevailing belief throughout the 19th century was that “industry was ‘entirely artificial in Brazil, surviving only at the expense of excessive monetary devaluation and tariff protection’” (Evans, 1979:64). Much of the Brazilian political elite agreed with both Portuguese mercantilists and British free trade advocates that “industry on the periphery is unnatural” (Ibid). This was precisely the opposite view in India, despite the fact that both countries were perfect examples of ‘classic dependence’ given their structural position in the mid-late nineteenth century global political economy as subordinate trade partners exchanging primary commodities for British manufactured goods.

The previous chapters have described in detail how India nationalist actors also faced identical assertions by the British that industry in the colony was ‘unnatural’ as India, or more precisely *Indians*, were unsuited for technology and skill intensive manufacturing activities due to their ‘inherent characteristics’. As Chapters Three and Four showed, race

²¹ By contrast, Chapters Three, Four and Five detailed how the Indian nationalist movement was galvanized by opposition to British merchant trade. For example, the *swadeshi* (self-reliance) movement constituted the first mass movement against colonialism organized by the elite Indian National Congress, and was organized around supporting indigenous Indian textile products and shops against the imported textiles from Lancashire. These views similarly resonated in the post-war period when India business and government actors began to negotiate with multinational firms.

based cultural tropes were deployed against Indians writ large. However, nationalists along with many emerging capitalists shared deeply embedded nationalist cultural schemas based in the tenets of drain theory and assertions of the pre-colonial superiority of Indian manufacturing skill. They believed that any observed weaknesses in Indian industry during the period of British colonialism was due to the destruction of traditional Indian industry and the deindustrialization and impoverishment of India through imperial policies of free trade, not innate differences in Indian capacity for industry. In fact, they argued that Indian science was *superior* to Europe in the pre-industrial revolution era (Prakash, 1999).²² In fact, Indian nationalist systems of thought were explicitly devised by nationalist actors to challenge colonial cultural schemas built on the lessons of classical political economy that naturalized European industrial and technological superiority, by citing India's rich manufacturing history as proof of its capacity to pursue industrial development.²³ Thus while the view of Brazilian owned industry as naturally weak would later shape industrial policy against private Brazilian capital from the 1930s onwards, the rationale of Indian industrial policy was to support the growth and development of Indian private firms.²⁴ The historical memories and cultural tropes were thus radically different, and these would play an important role in shaping preferences towards foreign investment as well as competitive market outcomes.

Finally, the Brazilian military was a crucial source of emerging Brazilian economic nationalism as well as the cultural schema of *developmentalism* that would become dominant from the 1930s onwards. The military's concerns at this time lay with protecting Brazil's vast borders from its neighbors and developing industry that would

²² Prafulla Chandra Ray's 1903 work *A History of Hindu Chemistry from the Earliest Times to the Middle of the Sixteenth Century* is the classic nationalist text in this vein. Chandra Ray's work on indigenous Indian scientific achievements along with Romesh Chandra Dutt's two volume *An Economic History of India* published in 1901 and 1903 which provided a rich elaboration of drain theory and offered a strong empirical challenge to the classical political economy arguments about Indian backwardness are discussed in greater length in Chapter Three of the dissertation.

²³ In this respect, the origins of the capitalist classes in both countries may play an important role in the different cultural schemas that emerged to shape industrial development in the 20th century. Like India, local Brazilian capital was dominated by large diversified business groups; but unlike Indian groups, no distinction was made between the 40% of the largest 'Brazilian' groups were founded by recent European migrants. In India, such groups would be dominated by British capital and be considered 'foreign', even if they had been present in India for 100 years. That is, nationality itself is constructed.

²⁴ Any weaknesses in Indian business actors were generally perceived as being due to (1) imperial opposition and (2) intra-Indian capital variation by caste-based community.

allow Brazil to become a major power than with political, economic or military threats from Europe. As such, economic nationalism in Brazil became largely oriented around national security concerns in resource extraction and the development of basic industries while Indian economic nationalism was motivated by collective understandings of India's past industrial prowess and artisanal manufacturing skills that had been destroyed by the imposition of free trade policies by the British.²⁵ India emerged from colonialism filled with resentment about the deindustrializing effects of extractive imperial free trade on traditional Indian industry while their Brazilian counterparts saw foreign private capital – as well as the role of foreign powers such as the British in facilitating a free trade regime – as largely benefitting Brazil, especially relative to the oppression of Portuguese mercantilism.²⁶ Foreign capital facilitated the development of commodity trade, shipping infrastructure and utilities that supported the beginning of manufacturing industry in Brazil, while similar investments in India was seen by Indian nationalists as colonial-led extraction of natural resources that promoted the *deindustrialization* of India.

These contrasting beliefs became further embedded in the Brazilian and Indian national psyches over the first few decades of the twentieth century.²⁷ By the end of World War II Brazil's colonial relationship with Portugal was a fading memory while India had just prevailed after decades of intense contestation with Great Britain that was explicitly nationalist and highly organized under the cohesive banner of the Congress Party. Independence in 1947 provided Indian economic and political actors with the long-awaited opportunity to return India to its rightful historical position as an industrial nation and achieve *swadeshi* (self-reliance), while Brazilians had no such nationalist memory of past national glories.²⁸

²⁵ Note however that Nehruvian scientific socialism placed the state at the 'commanding heights' of the economy with Indian private firms largely relegated to manufactured consumer goods. While this paper focuses primarily on *private* domestic and foreign capital, the role of the state as a player in the economy deserves further analysis.

²⁶ As indicated earlier, there is a debate in Brazilian historiography about the role of foreign capital and indeed, one can also add the precise meaning of 'foreign' in the social context of émigré post-colonial Brazil, that will be explored in subsequent iterations of this research. In India, by contrast, the social meaning of 'Indian' and 'foreign' is much more clearly and unambiguously delineated during this period.

²⁷ These were embedded in inter-subjectively-held meanings, symbols, narratives and representations.

²⁸ The industrialization plans central to Vargas' Estado Novo had to overcome powerful vested interests (with the support of the military) that were content to continue with resource extraction while Indian

Thus different social meanings were ascribed to nationalism and industrial development in India and Brazil, with divergent industrial policy discourses, regulatory outcomes and firm-level strategies. The case selection allows for deeper consideration of the concept of nationalism itself, and how its form and meaning can vary across countries depending on unique social, political and historical factors.²⁹ These are examined in the context of the development and promotion of each country's nascent automobile industry in the post-World War II period.

III. Indian Business and Government Preferences

Toward Foreign Direct Investment

This section will examine both Indian business and government preferences for foreign direct investment in the early post-World War II period.³⁰

Indian Business Preferences Towards Foreign Direct Investment

Chapters Three and Four of the dissertation analyzed the rise of the Indian business class, from participation in merchant trade to capitalist investment in the textile industry. Indian business actors typically understood colonial rule as favoring locally based British managing agencies, Lancashire firms and other foreign businesses at their expense. The insistence on free trade and uneven support for domestic industry was considered a major inhibitor of their growth prospects and Indian capital made their preferences towards foreign capital clear as they prepared to enter the post-independence period. During a meeting of the Government of India Industrial Policy Committee, India's leading industrialist J.R.D. Tata argued that, given the superior financial and technological advantages of multinational firms, the 'growth of such foreign controlled interests was a serious threat to India's industrial progress' as 'nascent industries under Indian control,

nationalist actors, once in power after independence, faced no such resistance: there was broad-based consensus favoring self-reliant industrial development.

²⁹ This is a key issue that is briefly considered later in this paper, and in much greater detail elsewhere in the dissertation.

³⁰ As suggested earlier, these preferences were informed by two distinct schemas that emerged at the time, scientific socialism in India and developmentalism in Brazil.

with Indian capital, had no protection against foreign established companies and would be beaten down in competition with such companies.’³¹ FICCI President J.C. Setalvad stressed the importance of solidarity amongst Indian capital against foreign firms: ‘as we will have to present a united front to safeguard the rights and interests of the commercial community and foster the development of Indian industry against the threatened incursions of foreign vested interests in the post-war period.’³² In the following year his successor to the FICCI Presidency A.D. Shroff built on Setalvad’s comments by asserting the new role of Indian capital in the policy formulation process and the pursuit of India’s development aspirations:

Till now the major part of the federation’s activity has been to safeguard the interest of Indian trade, commerce and industry and to protect them from the inroads of non-Indian interests. We are now passing on to a new era when we will have to take on the two-fold activities of not only interpreting to our own government the needs and requirements of Indian trade, commerce and industry but to raise this country at an early date to a level with the other countries of the world.³³

Other leading Indian industrialists agreed. Walchand Hirachand warned that ‘India has realized to her cost that British capital and control have stifled India’s political aspirations, crippled her financial strength and contributed only to her economic subjection.’³⁴

As argued in the previous chapters, these views reflected a long-held position amongst Indian business.³⁵ They are also entirely in line with economists’ predictions of domestic firm responses to the MNC threat (Barney, 1991; Caves, 1996; Olson, 1965; Stigler; 1971, Peltzman, 1976; Grossman and Helpman, 1994). However, as we will see they

³¹ Tata’s views were expressed in his capacity as member of the GOI Industrial Policy Committee, and were reported in *The Hindu*, October 31 1944. Original source: Mukherjee (2002).

³² FICCI Annual Report, 1945, p.199, cited in Mukherjee 2002:349.

³³ FICCI Annual Report, 1946, p.58, cited in Mukherjee 2002:349-50. This statement and others like it that Indian capital made can be viewed as political statements as Indian capitalists sought to legitimate their role as ‘true’ industrialists whose interests were aligned with those of the nation and who had a key role to play in the wider development process.

³⁴ Statements made on May 2 1945, Walchand Hirachand Papers, cited in Mukherjee 2002:342.

³⁵ From as early 1934, FICCI warned the colonial government that foreign capital will ‘fetter the hands of the future popular government of the country towards industrialization on national lines.’ FICCI letter to the GOI, 1934, quoted in FICCI Proceedings of the Executive Committee, cited in Mukherjee 2002:342. Editorials in the G.D. Birla-owned indigenous business outlet *Eastern Economist* similarly held that ‘A policy which lets foreign enterprise operate unregulated’ could “only prove to be an unmitigated calamity.” *Eastern Economist*, December 15, 1944, p. 658.

differed entirely from Brazilian firm responses where foreign firms evinced different social meanings. However, despite these strong positions, Indian capital recognized that in order to achieve the growth they desired through expansion to new industrial activities that were closed under British colonialism, they needed access to foreign technology and manufacturing knowhow, which was almost exclusively held by multinational firms. Analysis of archival material shows that, like state actors, Indian business believed that foreign direct investment provided two crucial potential benefits to developing countries: access to hard currency finance and valuable production technologies. In the immediate aftermath of the war, Indian business and government actors felt confident that India's massive sterling balances would preclude the need for external capital. There was also the belief that, if necessary, developing country firms would be able to access US government loans for capital equipment purchases. As a result, the main benefit of engaging with foreign firms was technology, which Indian business sought to acquire through direct purchases and debt financing with limited foreign equity participation.

The key for Indian business actors as they engaged with multinationals was acquiring technology without relinquishing ownership and control of the new industrial enterprises they sought to create, a tension that is recognized in the international business literature on joint ventures (cf. Hamel, 1991; further discussed in Chapter Eight). In 1945 J.R.D. Tata and G.D. Birla led a major business delegation to the US and UK, seeking access to capital goods, foreign technicians and patents and manufacturing rights. The delegates conveyed their willingness to pay royalties for patents and manufacturing rights, enter into profit sharing agreements for periods up to 15 years, and equity participation of 25-30%, albeit with stipulations that the Indian partner should retain managerial control (Mukherjee, 2002:372). However, Indian business was confronted with demands for equity participation from US and British firms, with the British wanting 50% shares of new ventures in exchange for supplying capital equipment and sophisticated technology in capital good industries, though they were more willing to cede managerial control in less technology-intensive consumer goods like textiles. Nevertheless, the delegates felt assured that there was little need for high foreign equity participation rates to secure new technologies based on the experience of Tata Steel which hired foreign consultants to

operate their steel mills and train local staff as a successful mechanism of technology transfer. Even in difficult negotiations where they might otherwise have felt compelled to concede to high foreign equity participation rates they stubbornly stuck to strict terms. Thus Birla confidently responded by warning British firms ‘that India will seek other markets if the supply of machinery and technical skill is conditioned by British managerial control of the Indian industry’.³⁶ Other members of Indian business such as M.A. Master, President of the Indian Merchants Chamber, had even stronger reactions that revealed the social meaning of foreign firms to rising Indian capital:

The participation in the capital and control of industries could not be allowed to become the condition precedent for the obtaining of technical skill and capital goods. India would prefer to go without industrial development rather than allow **the creation of East India Companies** in this country which would not only militate against her economic independence, but would also effectively prevent her from acquiring her political freedom.³⁷

The causal ideas that Master deployed and the cultural symbols in which his rationale was embedded is crucial to understanding Indian FDI preferences. Indian business not only saw foreign firms’ demands as neo-imperialist attempts to control Indian industry but also to challenge India’s newly earned political independence. Their preferences towards foreign investment were heavily shaped by their colonial experience, and the reference to the East India Company reflects the direct link that Indian business actors made to colonial exploitation, not only by the British state, but also by British managing agency firms that excluded Indian firms, including the East India Company that had not been dominant in India since losing administrative control of the colony in 1857. The historical memory of the East India Company persisted well into the post-independence period and as Chapters Seven and Eight of the dissertation show, still retains salience in the current debates around economic liberalization. It is a powerful cultural symbol of the imperialist role of foreign firms in perpetuating commercial, industrial and political hegemony.

³⁶ *Eastern Economist* 22 June 1945, p.822, cited in Mukherjee 373.

³⁷ M.A. Master speech to the Indian Merchant Chamber, 26 April 1945, cited in Mukherjee 2002:371.

Indian Government Preferences towards Foreign Direct Investment

Though Nehru and the nascent Indian capitalist class had a complicated, sometimes tense relationship, the new Indian political leadership held similar preferences towards foreign capital.³⁸ Much like Indian economic nationalists had elaborated since the 19th century, Nehru and most of his cabinet and technocratic colleagues saw control of the economy by private foreign capital as akin to political control by their states of origin. Further, while much of India's angst was generated by their erstwhile British colonial rulers, there was little appetite for swapping formal British colonialism for neo-imperialism under the new American hegemon. Nehru was asked to give the opening speech to the foreign firm-dominated Associated Chambers of Commerce (ASSOCHAM), a powerful acknowledgement of the impending transfer of power as the Viceroy of India was traditionally invited to open the meeting. Nehru made it clear that the statutory safeguards, monopoly protections and other privileges that European firms had long enjoyed would be a thing of the past. This was greeted with glee by representatives of Indian capital writing in the G.D. Birla-owned *Eastern Economist*, as it was interpreted as an "indicator that ... [the] rule of Clive Street [was] over...Nehru being called in to read the requiem to [the] now commoner mortals of [the] once great British empire...[and] to effect [their] transition from masters to the servants of the people."³⁹ This statement was laced with symbolic references. Clive Street in Calcutta was the headquarters of the powerful British managing agencies, and thus symbolized the commercial dominance of the British agencies as well as the close relationship between colonial administrators and British capital, as Calcutta was the traditional seat of the empire.

³⁸ Nehru had long been wary of both indigenous and foreign capitalists, whom he considered in a similar group with landlords and moneylenders as the traditional oppressors of the poor in India, even before his transformative trip to Russia in 1927. In principle, his scientific socialist beliefs favored state ownership and control of leading industries that stood at the 'commanding heights' of modern industrial economies, though he also saw a role for private ownership as a complement to state controlled enterprises, albeit with the latter controlling the 'commanding heights' of the economy. Similarly, Nehru's periodic flirtation with socialist rhetoric was disconcerting for many in the Indian capitalist class concerned about the new government's commitment to the sanctity of private property rights. However, despite the complexity of his relationship with private indigenous capital, Nehru's anti-imperialism detailed in the previous chapter left little doubts about his preferences towards foreign capital.

³⁹ *Eastern Economist* December 20, 1946, p.991 cited in Mukherjee 2002:363.

The shifts in the domestic political environment that accompanied independence coupled with the perceptions of new post-war economic opportunities gave Indian capital great confidence that they would soon be embarking on a period of massive expansion and diversification into manufacturing industry. However, it is crucial to note that neither Nehru nor his key colleagues in government completely opposed all forms of FDI; much like Indian capitalists, Indian state actors recognized that foreign capital was necessary to augment domestic financial resources and for technology acquisition. This was entirely consistent with the rationalized causal ideas underpinning Nehru's scientific socialist system of belief, which was based on his admiration of the modern industries of the West. Nehru's overwhelming objective (his 'fundamental interest', as defined in Chapter Two) was the development of a technologically sophisticated, self-reliant industrial sector that would allow India to catch up with the developed world, thus returning India to its 'rightful' position in the global order. Thus the development goals, causal ideas and conceptions of technology that constituted Nehru's scientific socialist cultural schema required the acquisition of modern industrial technologies in the short term. Nehru, like other scientific socialists recognized that private foreign firms controlled most of these indispensable technologies,⁴⁰ so technology acquisition required a strategy of engagement with multinationals for short term technology transfer coupled with major investments in scientific research organizations to develop independent technological capacities for the long term.⁴¹

Nehru acknowledged this understanding in an April 1, 1949 speech, saying "Indian Capital needs to be supplemented by foreign capital not only because our national savings will not be enough for a rapid development of the country on the scale we wish but also because in many cases scientific, technical and industrial knowledge and capital

⁴⁰ There were, however, important exceptions. See for example Tyabji (2004) on Nehru's attempts to bypass multinational pharmaceutical firm Merck in an effort to establish penicillin manufacturing in India through a state owned company with technology transfer from UNICEF and the World Health Organization.

⁴¹ Nehru's commitment to long-term scientific and technological independence is reflected in the development of numerous scientific research organizations and most dramatically, India's successful space program.

equipment can best be secured along with foreign capital.”⁴² This statement recognized the material constraints that India faced in pursuing its development objectives, and further distinguished between Indian capital’s financial and technological needs. Further, this rationalized understanding of the role of foreign capital was translated into government policy positions. However, it did not signal capitulation to multinational firms. Sir Ardeshir Jalal, Planning and Development Member (Minister), led a government delegation to the US and the UK around the same time as the private sector Tata-Birla mission where they offered minority foreign capital participation along a 70-30 share split with managerial control to remain in Indian hands, almost the same terms being offered by his Indian business counterparts (Mukherjee, 2002:372). Thus both Indian state and business actors believed that the key to the government’s foreign investment policies and domestic firms’ technology acquisition strategies would be striking a balance between acquiring sophisticated technologies that were held by private foreign firms while ensuring that the ownership and managerial control of Indian industries remained in Indian hands. This would be the fundamental causal idea – and joint ventures the organizational form -- that drove industrial policy and firm strategy in the post-war import substituting industrialization period and, as the next chapter will show, the same ideas continued to underpin the cognitive and cultural schemas that inform Indian FDI policy debates during the liberalization period of the 1990s and 2000s.

IV. Brazilian Business and Government Preferences towards Foreign Direct Investment: From the Early Republic through the Estado Novo and the Post-War Period (~1914-1945)

Section II of this chapter contrasted the similarities in economic structure between India and Brazil that underpinned this chapter’s case selection with the differences in socio-political historical paths that generated radically different beliefs about the role of FDI in industrial development amongst business and state actors in each country in the late

⁴² Telegram from American Embassy, New Delhi to State Department, May 23, 1966. National Archives, RG59.

nineteenth century. This section reveals how this contrast was deepened and the ways it manifested in industrial development as both countries moved into the post-war period.

Much as in India, a local industrial bourgeoisie was beginning to emerge during the inter-war period through a similar transition from merchant trade to capitalist investment. As indicated earlier, Brazilian commercial actors reaped massive profits from the impressive late 19th century growth of the coffee trade, which more than doubled between the founding of the Brazilian republic in 1889 and World War I. Many of these actors invested these returns to launch metalworking, chemical, textile, and food processing industries, the latter two of which benefitted significantly from the shortages created by the war.⁴³ This industrial base served as the foundation for accelerated industrialization efforts during the inter-war period.

Industrial Development and the Rise of Foreign Capital in Brazil

Both material and ideational factors played a role in Brazilian industrialization.⁴⁴ First, as Chapter Five argued was in the case of India, the Great Depression “cracked the ideological hegemony of the liberal economic model and encouraged a range of experimental policies that stressed nationalism, growth and domestic import-substitution” (Sikkink, 1991:41; Blyth, 2001). Second, the collapse in world trade and shortages of manufactured imports expanded opportunities for local firms. The Brazilian government was forced to respond to the economic crisis, and post-depression policies of the 1930s and 1940s coupled with the ‘natural’ protection’ of WWII provided further support to import substituting industrialization by Brazilian firms that had already begun the capitalist transition to manufacturing industry.⁴⁵ However, the implications of these fractures in the ideational structure for industrial policy and firm strategy were

⁴³ Half of the 16 large Brazilian groups founded before the war were engaged in industrial activities, with textiles and food processing providing entry opportunities, much as Chapter 4 described occurred in India. In fact, like India, Brazilian business actors were far more willing to seize these new opportunities than their British counterparts who remitted the majority of their profit earnings to London rather than reinvesting them in new areas of economic activity in Brazil. See Evans (1979:109) for an anecdote illustrating this dynamic, and Amsden (2001) for a broader argument along these lines.

⁴⁴ This is consistent with the Indian experience described in the previous chapters, as well as the wider theoretical framework of the dissertation (cf. Sewell, 1992).

⁴⁵ Many of the largest Brazilian business groups such as Matarrazzo, Klabin and Votorontim began operations in the pre-World War I period.

indeterminate with respect to the pursuit of industrial policy and the role of foreign investment in Brazil. Unlike India where it provided ammunition to Indian economic nationalists engaged in long-running battles with colonial defenders of the liberal regime, in Brazil these shifts resulted in a radically different approach to organizing the economy with respect to the relationship between domestic and foreign capital.

The rise of Getulio Vargas to the Brazilian Presidency in 1930 marked the introduction of a new approach to industrialization. The Vargas administration responded to the uncertainty of the time by dramatically increasing the bureaucratic capacity of the central state. This policy move was consistent with global movements towards Keynesianism in the advanced industrialized countries in the wake of the discredited liberal free market hegemony (Blyth, 2001).⁴⁶ However, it contrasted sharply with the approach advocated by the orthodox colonial Finance Minister Sir James Grigg of India. As the previous chapter argued, Grigg found Keynesian ideas ‘either silly or vicious’ and maintained his liberal economic belief that agriculture was the real ‘vocation’ of India even while recognizing the incredible uncertainty of causal relations in the economy during this period, the one thing he remained sure of was that ‘that India mustn’t industrialise herself too quickly’ (Markovits, 1985:48, emphasis added). By contrast, the Brazilian state increased its participation in the industrial sector in response to the global economic collapse. Brazil’s experience, which was epitomized by the development of the steel industry, would have major implications for the role of foreign capital in industrialization.

In the late 1930s Vargas declared that for national security reasons Brazil needed develop a steel industry that would be under national control, a view that accorded well with the military. Up until the beginning of World War II Brazil was reliant on imports supplemented by local production by the foreign-owned firm Belgo Mineira. Imports of steel were severely disrupted due to war-related supply constraints but the administration was unable to get Belgo Mineira to expand its production capacity or encourage private

⁴⁶ However, Brazil’s increasing statism eventually turned to authoritarianism during the Estado Novo period, which lasted from 1937-1945.

Brazilian firms to enter into steel production. This experience confirmed deeply held beliefs about the weakness of Brazilian firms, and forced the government into negotiations with the American multinationals Dupont and US Steel.⁴⁷ However, nationalist pressure from the military restricted Vargas' bargaining position and eventually scuttled both potential projects. The only remaining alternative was state ownership, but the Brazilian government found that this would still require foreign technical and financial support, which the administration secured from the United States through debt financing from the Export Import Bank (Evans, 1979; Shapiro, 1994).⁴⁸

The state-owned Companhia Siderúrgica Nacional (CSN) steel mill was completed in April 1941.⁴⁹ The firm was crucial in a number of respects. First, the state's experience with CSN had a significant role in shaping future engagement with foreign and domestic firms, as the failure of Brazilian private capital to enter steel production even with government support suggested the latter could not be counted upon in the promotion of industrialization. By contrast, the Indian firm Tata fought the British colonial government for years to enter steel production and after raising public share capital -- in part by successfully appealing to nationalist *swadeshi* sentiment -- ultimately launched production in 1907. Tata Steel then lobbied furiously to supply government projects, only becoming successful due to shortages and supply disruptions of British steel arising from the hostilities of World War I. Second, the construction of the facility involved extensive joint planning between Brazil and the US and, along with Brazil's proactive military cooperation with the Allies during World War II, tied Brazil closely with Europe and the US and created "a positive precedent for international economic collaboration that would shape the ideas of policy makers and the public alike" (Sikkink, 1991:43).

Brazil's wartime collaboration stands in striking contrast to the strong negative reaction by the Indian National Congress to British attempts to enlist India in the war effort. Not

⁴⁷ It is important to consider whether these are 'legitimacy' issues, or are purely 'material', at least to the extent that these can be easily separated. That is, the extent to which Brazilian capital was 'objectively' weak and role of social factors in interpreting their strength.

⁴⁸ It is worth noting that the National Steel Commission may have had a domestic auto industry in mind, and opted for technologies that would produce steel sheets for vehicle production (Shapiro, 1994).

⁴⁹ Dinius (2011) Chapter 1 provides an excellent discussion on the development of CSN.

only did the Congress oppose any collaboration with the British during the war, Congress officials resigned *en masse* from their hard-fought Provincial government posts in 1939 in protest of the unilateral British decision to involve India in the war effort. India's well-known post-independence role in the Non-Aligned Movement is a further reflection of this position and adds further contrast to Brazil's pro-US stance during the cold war. Though Vargas was ousted by the military in 1945, the pattern of industrial cooperation between Brazil and the US had been firmly established and the belief in the beneficial role of foreign (versus domestic) capital in advancing the industrial development project was institutionalized in policymaking practice. This was made clear When Vargas was re-elected to the Presidency in 1951 he continued his program of state industrial planning by establishing the Industrial Development Council, which included a sub-commission on automobiles, trucks, jeeps and tractors that would lay the initial plans for the Brazilian auto industry with foreign capital playing a major role.

Brazilian Government Preferences towards Foreign Investment

Brazil's increasingly favorable orientation towards foreign investment was strengthened by participation in the Joint Brazil-United States Economic Development Commission, where many of the rationalized cusal ideas that underpinned Brazil's post-war policies towards FDI were formed. The commission began work in 1951, the first year of Vargas' return to office. It aimed "to create conditions for, and eliminate obstacles to, an increase in the flow of investment, public and private, foreign and domestic, needed to promote economic development", and placed special emphasis on transportation and electric power.⁵⁰ The commission established the theoretical framework centered on attracting FDI to establish new manufacturing industries with strong backward and forward linkages that would shape Brazil's industrial policy over the next three decades.

Vargas committed suicide in 1954 and was succeeded by the Former Governor of Minas Gerais Juscelino Kubitschek. Kubitschek was a Vargas supporter and adopted many of Vargas' industrial policy plan including automobile production which would become a

⁵⁰ *Report of the Joint Brazil-United States Economic Development Commission* (Washington D.C.: Institute of Inter-American Affairs, Foreign Operations Administration, U.S. Government Printing Office, 1955, pp. iii-vi. Cited in Sikkink, (1991:64).

central pillar of his Targets Program. President Kubitschek's development ideas and conceptions of modernity were heavily influenced by his overseas travels. Kubitschek journeyed across Europe after completing medical school in 1930 and later visited Canada and the United States in 1948. After his European trip he recalled 'It was then that I became convinced that no countries are condemned irremediably to poverty...There are countries that know better than others the secret of producing more and better, and at a lower price.' Similarly, after his trip to North America, he recalled 'In 1948, contemplating the North American civilization...I understood the part that Brazil could play in the world, if our development was oriented towards industrialization.'⁵¹ Kubitschek's experience coupled with his association with the Vargas development plan gave him "a clear vision of the kind of future he desired for Brazil" (Sikkink, 1991:124).

The implications of Kubitschek's experience in his overseas travels for his vision of Brazilian development and modernity paralleled those of Jawaharlal Nehru following his own travels to Europe and Russia in the late 1920s. However, the means through which each leader would pursue their nationalist visions were radically different. As Evans (1979:216) argues, the "nationalist logic of accumulation" in Brazil functioned through multinational firms.⁵² Thus while Nehru and his anti-imperialist colleagues in the Indian government aimed to industrialize India through indigenous firms, Kubitschek and his colleagues in the Brazilian government sought to pursue their own form of nationalist industrial development with the assistance of foreign firms. The differences in their nationalist visions were abundantly clear in their preferences towards foreign investment.

A central plank of Kubitschek's economic program was a new regulatory approach to foreign investment. Instruction 113 was issued by the Superintendency for Money and Credit (SUMOC) and introduced by the Department of Foreign Trade (CACEX) in 1955. It articulated a new policy stance towards foreign investment in manufacturing that was expected to have two main expected benefits. First, it would promote increased foreign

⁵¹ Sikkink, 1991:123; 124.

⁵² For example, Roberto Campos who was the principal economic adviser to the military government in 1964 "was a devout economic liberal who believed that a return to competition was the only way out of Brazil's stagnation. If international firms were the strongest in completion, so be it" (Evans, 1979:216).

exchange flows to support Brazil's weakening balance of payments position, a particular concern for Brazilian officials as coffee prices in 1955 fell 30% below peak levels achieved during the Korean War. Second, it would attract foreign firms that Brazilian policy officials expected would introduce many of the new 'technologically complex' industries that the government wanted to promote (Leff, 1968:60). The policy provided open entry to foreign firms, with none of the restrictions on partnering that prevailed in India. A key provision of Instruction 113 allowed the issuance of import licenses for capital equipment without foreign exchange cover, which raised the return on investments by foreign firms and provided favorable terms on profit remittances. The policy change had an immediate effect, as FDI immediately doubled in 1956, and remained strong over the course of the next 5 years (see table below).

Direct Private Foreign Investment in Brazil, 1947-61

Year	\$, millions
1947	36
1948	25
1949	5
1950	3
1951	-4
1952	9
1953	22
1954	11
1955	43
1956	90
1957	144
1958	110
1959	124
1960	98
1961	108

Source: Leff (1968:61), Table 13.

The manufacturing sector focus of Instruction 113 and in particular the importance of automobiles is also revealed in the sectoral distribution of incoming foreign funds (see table below).

Sectoral Distribution of Foreign Investment under Instruction 113

Automotive	46
Steel, non-ferrous metals, chemicals, cement, mechanical and electrical equipment, pharmaceutical	40
Food products	2
Textiles	4
Other	8

Source: Leff (1968:61), Table 14.

The contrast in the policy approaches in India and Brazil is clear from the 1948 Indian Industrial Policy Resolution, presented a year after India became independent. While Brazil instituted policies to encourage the entry of foreign capital and place it at the center of Brazilian industrial efforts, India's industrial policy regime aimed to regulate and restrict foreign firms to ensure that they served the purpose of technology transfer but did not gain significant ownership and control of Indian industry.

The Government of India agree with the view of the Industries Conference [the forum of interaction between domestic capital and the state] that, while it should be recognised that **participation of foreign capital and enterprise, particularly as regards industrial technique and knowledge, will be of value to the rapid industrialisation of the country,** it is necessary that the conditions under which they may participate in Indian industry **should be carefully regulated in the national interest.** Suitable legislation will be introduced for this purpose. Such legislation will provide for **the scrutiny and approval by the Central Government of every individual case of participation of foreign capital** and management in industry. It will provide that, as a rule, **the major interest in ownership, and effective control, should always be in Indian hands,** but power will be taken to deal with exceptional cases in a manner calculated to serve the national interest. In all cases, however, the training of suitable Indian personnel for the purpose of eventually replacing foreign experts will be insisted upon.⁵³

This policy position continued to hold throughout the 1950s. The Indian government revised the 1948 Industrial Policy Resolution on April 30, 1956 but reiterated the stance on foreign investment: "The Prime Minister, in his statement in Parliament on the 6th April, 1949, has enunciated the policy of the State in regard to foreign capital. It is, therefore, not necessary to deal with these subjects in this resolution."⁵⁴ These contrasting policy approaches in India and Brazil had major implications for distribution of industrial policy rents and resulting market share in India and Brazil. These are illustrated in the next section through an analysis of how these business and government preferences

⁵³ Government of India, Industrial Policy Resolution, 1948.

⁵⁴ Government of India, Industrial Policy Resolution, 1956.

towards foreign investment manifested themselves in domestic firm strategy and market outcomes as both countries moved towards developing a locally-based automobile industry.

Indian Business View of the Latin American Approach to Foreign Investment

Finally, and crucially for this comparative analysis, Indian business and government actors were well aware of the more permissive perspectives on foreign investment held by their counterparts elsewhere in the developing world, including Latin America, but were adamant that those approaches would not be adopted in India. In its lead article on July 27, 1945 the *Eastern Economist* elaborated cases where American capital gained a 'stranglehold' over South American economies such as Bolivia, Chile, Colombia and Peru, even while those countries retained their formal political independence. It revealed how US firms controlled many locally based firms by establishing majority positions on their boards of directors. This sparked significant fears of the continuation of imperialism, albeit with a new metropole, and concluded: "It would be suicide for us to enter into an economic alliance on terms such as these. Having sufficient experience of the techniques of British political imperialism, we are not going to court the economic imperialism of their cousins across the sea."⁵⁵

This variation in preferences between India and Latin America is further captured by a diplomatic cable sent from the US Consulate in Bombay on March 20, 1958 entitled "Reaction to New York Times Supplement on Foreign Investment in Latin America". The cable reports on responses to a *New York Times* article that was distributed by the US Consulate amongst the Indian business community in the industrial and commercial capital of Bombay. The article notes "the general appreciation of the need for foreign aid and investment for India's development" amongst Indian industrialists, but reveals that:

At the same time, the business community is not prepared to go to the same lengths as its counterpart in Latin American countries in attracting foreign investment. The average Indian business prefers foreign investment **which does not entail foreign overall control**. There is also a tendency to suggest that foreign enterprise has a duty to invest in India and collaborate with Indian enterprise, not so much with a profit motive as with a view to helping Indian democracy and economy.

⁵⁵ *Eastern Economist*, lead article, July 27 1945 cited in Mukherjee (2002:374).

The cable goes on to provide the specific views of a member of one of India's top two business houses, noting

Typical of such attitude is the following from Mr. R.D. Birla of the Birla House and brother of Mr. G.D. Birla who recently led an industrial delegation to the United States: "...While **it is not possible for India, unfortunately, to offer the same facilities and concessions to foreign investors as is done by some of the Latin American countries**, the need for foreign investment in this country at this juncture requires little emphasis...We would, therefore, heartily welcome any American investments that might come forth and contribute to the success of the [the Indian Government's Five Year] Plan, thereby strengthening the foundations of democracy in this country'."⁵⁶

The position of leading Indian economic actors was clear: foreign capital was needed, but not at the expense of ownership and control of Indian industry. This is a major conundrum for structural-deductive theories that seek to deduce actors' preferences from their structural positions. Why did economic actors in similarly positioned Latin American countries hold such radically different preferences towards foreign investment? The next section turns to the case of Brazil to reveal the social and historical sources of these fundamental differences in preferences towards foreign firms.

V. Contrasting Indian and Brazilian FDI Preferences:

Automobiles as the Epitome of Industrial Modernity

The auto industry has been seen as the exemplar of modern industry throughout the twentieth century. It entails a high degree of organizational and technological complexity and generates spillovers through production networks in a wide range of complementary industries. These industries encompass different levels of knowledge and technology intensity from simple forged and stamped metal parts to complex engineering and advanced materials that produce a wide range of low, medium and high skilled jobs. These factors led management theorist Peter Drucker, writing in the immediate aftermath

⁵⁶ It is valuable to note the emphasis that both the US Consulate, and more interestingly Indian businessman places on supporting Indian democracy, as it reflects the wider Cold War environment. Unsurprisingly this was a strong theme throughout the Diplomatic cables files, but what is interesting is the way that Indian business often deployed the communist bogey in discussions with US government representatives.

of World War II, to famously declare autos ‘the industry of industries’.⁵⁷ Automobiles production lay at the center of 20th century industrialization in the advanced industrialized countries, not only shaping the industrial landscape but having an equally important effect on social transformation by propelling the rise of the organized working class, the consolidation of the middle class and expanding opportunities for the capitalist class (Okada, 2000). As a result, the auto industry occupied a privileged position in the socio-technical imaginaries of modernizing business and state actors in both India and Brazil in the post-war period. It was synonymous with industrial development, modernity and economic power.

India and Brazil had similar industrial backgrounds and ambitions in developing domestic automobile industries. Both countries had histories of auto assembly activities involving the same multinational firms, as GM and Ford had each been assembling complete and semi-knocked down kits (CKDs and SKDs) in both places since the 1920s.⁵⁸ Likewise, both countries had a strong desire to move from simple kit assembly to more sophisticated and higher value-added activities through domestic manufacture and production. Nevertheless, their radically different approaches to foreign investment are most evident in this industry.

Launching the Indian Auto Industry

Serious plans for an Indian automobile industry emerged in the early 1930s. As the previous chapter argued, the idea of was initially championed by Sir M. Visvesvaraya, a civil engineer, civil servant and prominent scientific socialist who was an influential voice in elite discussions around the development of Indian industry and a member of the National Planning Commission. Visvesvaraya traveled to Japan in 1898 where he

⁵⁷ In his 1946 book *The Concept of the Corporation*, Drucker stated: “The automobile industry stands for modern industry all over the globe. It is to the twentieth century what the Lancashire cotton mills were to the nineteenth century: the industry of industries.”

⁵⁸ Complete and semi-knocked down kits refer to automobiles that are fully (or partially) disassembled for shipping and re-assembly upon arrival. All the components are included in the kit, and crucially, little labor, skills or technology is required for their assembly. For this reason, industrial policy planners sought to move away from CKD and SKD assembly as it was seen as contributing little to industrial development. Instead they sought to promote full vehicle assembly with as close to 100% locally sourced components, as this maximized the contribution to technological learning in components manufacturing as well as final assembly.

witnessed the industrialization efforts that were taking place under the direction of the Japanese state during the Meiji Revolution. His experience ingrained in him the belief that ‘industrial life...connotes production, wealth, power and modernity’.⁵⁹ Visvesvaraya made his views on the importance of the auto industry clear in a 1938 editorial in the Indian journal *Science and Culture*: “...if we take the motor car industry as *an index of civilized existence*, the USA stands easily first, with over 30 million cars in use; about one man in 5 possesses a car, i.e. every family possesses a car...in India, there is one car for every 2,300 persons. This figure gives an appalling picture of the low index of civilized life in India” (Zachariah, 2005:238, my emphasis). This view of India’s ‘backwardness’ and the perception of autos as the path to modernity epitomized scientific socialism and shaped Indian policy approaches to developing the industry.

Many Indian industrialists shared this belief in the role of the auto industry not only for national development but also for the growth of their own corporate empires. Visvesvaraya developed a detailed proposal for the development of an India auto manufacturing facility with annual production of 10,000 cars and 5,000 trucks. He proposed the flotation of a joint stock company named Indian Motors Ltd. in 1936 involving major Indian business actors such as Indian shipping magnate and staunch economic nationalist Walchand Hirachand, as well as G.D. Birla, J.R.D. Tata and Purshotamdas Thakurdas, amongst others. None of these business actors had any experience with an industry as complex as integrated automobile production, so there was early recognition that foreign firm participation would be necessary in order to access vehicle design, technology and for technical assistance to setup the manufacturing facilities. However, consistent with Indian preferences towards foreign investment this participation would not be on a 50-50 basis as it was feared this would lead to loss of managerial control. This was a clear legacy of Indian experience with the British managing agencies. Instead, the plan called for a lump sum payment to launch the factory, transfer of technical management from foreign to local engineers over a 12-18 month period and fixed term per unit royalty payments for technology.

⁵⁹ *Science and Culture*, cited in Zachariah (2005:238).

The local Indian Motors consortium fell apart as Birla and others decided to enter the industry on their own. However, Walchand Hirachand continued to pursue the Visvesvaraya plan and entered into negotiations with Henry Ford himself in Michigan in July 1939. The Hirachand team's demands were significant: they wanted access to all new Ford designs, a monopoly in South Asia, support with acquisition of capital equipment, training and factory design and construction. In return, Ford insisted on receiving a 51% share of the venture, but this was steadfastly refused by Hirachand who offered a fixed royalty and maximum \$500,000 share sale, albeit with no voting rights and stringent transfer restrictions, including a right of first refusal and a proviso that shares could only be sold to another Indian company. Fascinatingly, Hirachand preferred to have a local rival buy in to his firm than a foreign company. Such were Indian capitalists' preferences towards foreign firms.

The Ford negotiations ultimately failed, but Walchand was undeterred. He managed to strike a similar deal with Chrysler for the manufacture of Chrysler, Dodge and Plymouth passenger cars and trucks purely on the basis of royalty payments with no share ownership nor board representation by the US firm. Chrysler accepted and the new firm, Premier Automobiles, was launched in 1944 with an aggressive plan of phased indigenization with Chrysler's support. Walchand later entered into a similar agreement with the Italian firm Fiat with similar terms to the Chrysler deal. This resulted in Premier producing a local version of the Fiat Padmini for the next few decades, which has since become the ubiquitous taxi in Bombay.

G.D. Birla was also keen to enter into automobile production and eventually struck two separate deals, one with the US firm Studebaker for the manufacture of trucks, and the other with Lord Nuffield, head of the UK-based Morris Motors Ltd., to assemble passenger cars. Birla's auto firm was named Hindustan Motors Ltd., and in the case of the latter arrangement, Morris "was to have no financial interest direct or indirect in the capital of this company and have nothing to do with its management or control". The Managing Director of Morris himself further added: "The basis of this cooperative effort is that if there is going to be an Indian car manufactured by Indians for the Indian market

and if the finance is provided from Indian sources the administrative control of the project should be vested in Indian hands”.⁶⁰ Nevertheless, Birla launched the firm with the intention of fully indigenizing production of the Morris Ten. The car was sold in India under the name Ambassador, and it quickly became the vehicle of choice for Indian government officials and politicians, a status it retained for the next several decades. The Ambassador is synonymous with post-war Indian manufacturing industry, and would become the most potent symbol of the achievements and pitfalls of the Indian ISI period.

Other Indian business houses followed suit. The Tata Group formed a 70-30 share partnership with Daimler in the early 1950s, and quickly became the leading manufacturer of trucks. Mahindra and Mahindra similarly partnered with the Willys-Overland Motors to assemble jeeps, becoming a major supplier to the Indian police and military; and with Ford for the manufacture of tractors, a partnership that benefitted significantly when the Green Revolution was launched in the 1960s. These two partnerships are useful to note as the Tata-Daimler relationship continued until well into the 1990s, when Tata entered passenger car manufacturing on its own when the industry was delicensed (following a difficult split with Daimler that is discussed in Chapter Eight), while Ford was the first MNC Mahindra turned to when they decided to re-enter sports utility production in the late 1990s. Ford provided assistance in the production of the now wildly successful Mahindra Scorpio. Thus, as the table below indicates, Indian capital came to dominate the newly founded auto industry with foreign firms in minority share positions or acting mainly as technology suppliers.

Indian Passenger & Utility Vehicle Market Share, 1955-1990 (%)

	1955	1960	1970	1980	1990
Hindustan Motors (Birla Group with Morris, UK)	38	38	51	48	12
Premier (PAL; Hirachand Group, with Chrysler and Fiat)	28	27	27	19	20
SMP (Birla Group with GM)	12	14	1	0	0
Mahindra and Mahindra (with Ford, Willys, Chrysler)	22	22	21	33	15
Maruti Udyog (with Suzuki)	--	--	--	--	53

*Source: D'Costa (Ec Nationalism in Motion, 2006) Table 2 * Excludes commercial vehicles e.g. Tata's Telco with Mercedes, Birla's Hindustan Motors with Studebaker, Ford with Amalgamations and Ashok Leyland*

⁶⁰ In fact other sources suggested that the Morris was to receive 25-30% of the shares. However, majority ownership and managerial control remained firmly in Birla's hands. Mukherjee, (2002:378).

Launching the Brazilian Auto Industry

The pattern of development and the role of foreign capital in Brazil could hardly be more different. Initial plans for an automobile industry in Brazil were laid in the late 1940s and early 1950s, when Admiral Lúcio Meira directed the sub-commission on motor vehicle production under Vargas' 1951-54 administration. Meira's interest in autos had a similar genesis to that of his Indian counterpart Visvesvaraya. Meira's belief in the powerful developmental role of the auto industry was sparked during his first trip to the United States in 1930, where he gained an understanding of the central position the auto industry held in the vibrant and powerful US economy. Meira "learned that one in eight American jobs was connected to auto production," and concluded that "As in the highly industrialized countries, the automotive industry in Brazil is becoming and will be without doubt the leading sector of the entire economy, by force of its magnitude, complexity, and dynamism" (Shapiro, 1994:39).

Though the automobile production plan that the Meira subcommission developed was not adopted by the Vargas administration, Meira later shared the proposal with soon-to-be President Juscelino Kubitschek when the two met during a campaign visit to Bahia in 1955. Meira put forward a convincing argument for the inclusion of auto production in Kubitschek's proposed state-sponsored industrialization program, the Target Plan of National Development, which was being promoted through the motto *Fifty Years of Progress in Five* that aptly captures the widely-held development aspirations and optimism of the post-war era. Meira's auto proposal strongly appealed to the soon-to-be President. Kubitschek needed a modern industry that would capture the imagination of the aspirational Brazilian public as by the early 1950s railroads – which had been the foundation of 19th century modernity – was no longer seen as the basis of industrialization. On the other hand, the successful development of highway infrastructure had become a sign of the capacity for competent governance by the public and the Brazilian middle classes that were a key part of Kubitschek's constituency were clamoring for autos. Kubitschek immediately tested the idea at a political rally later that afternoon, promising to launch the production of what he termed as a 'national car'. The

proposal garnered an enthusiastic response and, with Kubitschek's electoral victory in 1956, Meira was named Minister of Transportation and Public Works and charged with laying the plans for development of an auto manufacturing industry (Shapiro, 1994:28).

From the outset, the Brazilian auto industry was seen as a crucial means of attracting foreign capital and technology and generating industrial development by acting as the centerpiece of an integrated industrial structure.⁶¹ This view arose from policymakers' beliefs in economic theories that posited the catalytic role of foreign capital and the existence of extensive backward and forward linkages between industries and sectors across the economy. These beliefs were supported by new economic planning tools, particularly input-output matrices that provided a rationalized framework for assessing relationships across different domains of the economy. These matrices quantified the effects of industrial linkages and rationalized Brazil's entry into the production of high-technology consumer goods. Planners expected that autos would facilitate the development of complementary industries, and further support emerged from the recognition of common patterns of sectoral interdependence in other developing and industrialized economies. "Targeting high-linkage industries became the logical development strategy" (Shapiro, 1994:40).⁶²

FDI Preferences in the Brazilian Auto Industry

The Vargas subcommission and the subsequent Executive Group for the Auto Industry (*Grupo Executivo da Indústria Automobilística*, or GEIA) created under Kubitschek's Presidency both concluded that foreign firms offered the only route to developing the industry. Multinational firms initially complained bitterly about the unrealistic idea of engaging in automobile production in Brazil, given the lack of 'natural' conditions. Ford was particularly difficult, referring to the idea of automobile production in Brazil as 'utopian' while claiming engines could not be produced in the tropics (Shapiro, 1994:70).

⁶¹ Brazilian policymakers had been concerned about the explosion of imports of automotive products, from \$20m to \$276m in 1951, before falling to \$52m in 1955 as the auto program got going.

⁶² Brazilian technocrat Roberto Campos authored a section of the *Report of the Joint Brazil-United States Economic Development Commission* that stated: "Brazil...offered striking evidence of the interrelationships of an economy and how accelerated growth in one sector is often the precondition for faster growth in other sectors" (Ibid, p. 14, cited in Sikkink 1991:65).

This was the same claim that MNCs made about automobile production in India. However, these fears were put to rest as eleven firms opted to participate in Brazil's auto production plan, of which six were controlled by foreign capital, two were 50-50 joint ventures and three including FNM were controlled by Brazilian capital. The industry was a major success in terms of vehicle production, which reached 145,000 in 1961, as well as local content, which averaged 90% in the 1960s. However, as the table below shows, the industry saw massive consolidation and by 1968 was almost entirely controlled by foreign capital.

Investments by Firms (1956-60) \$US millions			Post-1960 Developments
	Cr\$,millions	Ownership & Control	
Willys Overland	30,819	Majority Brazilian Capital	Ford takes over in 1967
Ford	22,420	Majority Foreign Capital	
General Motors	22,159	Majority Foreign Capital	
Volkswagon	11,173	Majority Foreign Capital	
Mercedes-Benz	8,888	50-50 Foreign-Domestic	Chrysler buys 92% stake in 1966
Simca	6,454	50-50 Foreign-Domestic	
International Harvester	4,576	Majority Foreign Capital	Alfa Romeo takes over in 1967 VW takes over in 1966
FNM	3,224	Majority Brazilian Capital	
Vemag	2,714	Majority Brazilian Capital	
Toyota	1,548	Majority Foreign Capital	
Scania Vabis	780	Majority Foreign Capital	

Source: Adapted from Shapiro (1994) Table 4.3 & A.2

The contrast with India in the pattern of ownership of auto industry firms is glaring, and was a direct outcome of Brazilian government preferences towards foreign capital. Private Brazilian firms were considered incapable of meeting the technological and financial requirements of automobile production, a view that was consistent with the earlier experience with the Brazilian private sector. However, Brazilian firms were no differently placed in terms of these capabilities than their Indian counterparts. If anything, Brazil was in a stronger financial position in the late 1950s than India, and the Brazilian government offered similar financial support to Brazilian firms than Indian firms received.⁶³ The crucial difference was that, unlike their Indian counterparts, many Brazilian firms also seemed to share government's views towards the relative roles of domestic and foreign capital in the industry. This is surprising given the wide range of potential Brazilian firms that could enter the industry. It is especially puzzling given that

⁶³ Future research will consider why Brazilian actors didn't have greater faith in local firm capabilities relative to their Indian counterparts.

the structure of the Brazilian and Indian private sectors looked very similar in terms of size, organization and sectoral distribution of the leading firms. Further, in addition to the large business groups Brazil already had a relatively vibrant locally owned auto parts manufacturing sector. However, just as had occurred a decade before in the steel industry, Brazilian firms made it clear to the Vargas sub-commission that they were unable to pursue such an undertaking, even if the state was to provide the financing (Shapiro, 1994:43). Meira did suggest state financing of an auto producers company that could be passed on to Brazilian private capital but minutes from two Subcommittee meetings on May 7 1952 and Aug 27 1952 reveal that parts producers made it clear that they did not wish to enter the industry (Shapiro, 1994:64). Instead they were content to carry out subordinate roles in the industry as suppliers and parts manufacturers.

Despite the fact that Brazilian firms moved aggressively to capture new opportunities in both the pre-World War I and interwar periods, as seen in the rapid growth of new business groups, foreign firms captured the lion's share of opportunities that arose in post-war Brazil. New Brazilian firms were unable to gain a foothold in the post-war economy even with the dramatic economic growth of the 1950s and 1960s. In this period the so-called *grupos multibilionarios* were almost all foreign owned, and "the development of the automobile industry was to foreign groups in the fifties what textiles and food products had been to local groups in the pre-World War I period" (Evans, 1979:110). Three of the six foreign groups that entered Brazil in the fifties -- Volkswagen, Mercedes and Willys Overland -- were involved in the production of cars, trucks or buses (Ibid). Further, GM and Ford, which had been engaged in CKD assembly, sale and distribution of cars since the 1920s expanded into integrated local production. It is worth noting that this dynamic was not limited to autos, as foreign firms also usurped local groups in seizing the lead in new complex areas of manufacturing such as locomotives as well as in consumer goods such as radios and washing machines (Ibid). These were areas where Indian firms were staking out ground: Tata Engineering and Locomotive Company was the dominant player in locomotives after battles with the colonial government over preferential treatment to British exporters, and other Indian groups were seeking to enter consumer electronics industries through majority

partnership arrangements with foreign firms. More broadly, the general pattern in India saw Indian business actors increasingly gaining control of formerly British firms, as the table below indicates. The Indian dominance in directorships would increase and be reflected in managerial control as British disinvestment rose in the mid-1950s through 1960s.

Foundation Dates for Largest Brazilian Business Groups and Subsidiaries of US Multinational Firms (%)

	Pre-WWI	1914-1929	1930-1945	Post WWII	Total	
Largest Brazilian Groups	<u>64</u>	28	8	0	100 ^r	(25)
Largest Foreign Owned Groups	20	37	17	27	100 ^r	(30)
Subsidiaries of US MNCs	0	11	21	<u>68</u>	100 ^r	(131)

Source: Evans (1979) Table 3.1

Shifting Ownership and Control of Enterprises in India (1911-1951)

	Number of Companies			Number of Directors		
	1911	1931	1951	1911	1931	1951
British	282	416	382	652	1,335	865
Indian	31 ^r	66 ^r	158 ^r	262 ^r	826 ^r	1,385
Mixed Control	28	28	79	102	121	372

Source: Kochanek, 1974.

The willingness of Brazilian auto parts producers with experience in the industry to concede to foreign firms also stands in stark contrast to India, where the leading auto component firms were keen to partner with MNCs and become assemblers.⁶⁴ Indian firms viewed this as the logical next stage of growth, especially during this relatively early period of the development of the global auto industry. Instead, the GEIA wanted to encourage a non-vertically integrated industry structure to leave parts sector as ‘natural preserve for Brazilian capital’ and to legitimate foreign firm dominance of the industry as auto assemblers and supply chain integrators. Crucially, Brazilian firms didn’t perceive foreign firms as nearly as much of a threat as their Indian counterparts, but rather much more as creating new investment opportunities. They interpreted similar material facts

⁶⁴ By the mid-1950s Brazil had a vibrant locally owned auto components sector and so was expected even by Brazilian officials to be potential entrants into the industry (Shapiro, 1994). The Brazilian auto sector had seen some development in the pre-war period, and grew rapidly in the immediate post-war era. Though by 1944 there were only 38 registered auto parts companies, they produced over 2,000 different components. These firms suffered at the end of the war as orders were redirected to overseas-based foreign suppliers and almost half went out of business. However, they organized and received some protection via the licensing scheme Advisory 288 which allowed the sector to recover strongly to 250 firms producing 8,000 parts in 1952, and 900 registered firms by 1955 facilitating domestic content levels of 30% for locally assembled vehicles.

entirely differently, an outcome that runs directly against the predictions of structural-material theories (Abdelal et al, 2010). As the President himself argued in the communication circular '*Relatorio*':

Thus, an excellent opportunity would remain for national investors to operate, possibly on a more economical basis, specializing in the supply of parts and components to various or all aforementioned 'manufacturers'...recognizing therefore the advantage in a horizontal industrial structure, from which emerges two types of producers: **manufacturers, primarily foreign, and subcontractors, predominantly national.**⁶⁵

The difference between Indian and Brazilian firms' approach to foreign investment is further supported by evidence from US Diplomatic Cables from consular officials in Brazil. In the post-war period it was common practice for US embassies and consulates to serve as intermediaries between US firms and local business communities. Embassy and consular officials played crucial roles in providing general information on the economic environment as well as specific information on local business and government actors as a means of identifying potential business partners for American companies. For example, a June 23 1959 cable reporting on a Brazilian firm's interest in the manufacture of brake components for the auto sector contacted the embassy to seek potential partners in the US to provide capital participation and technical assistance. While Indian firms were consistently clear that foreign firms would be a minority partner in joint ventures, Brazilian firms appear much less concerned, with the Consul General reporting that "Capital participation is primarily desired by the partners in the local firm [and] the [Brazilian] partners stated that the potential investor or investors may *assume the administrative direction* of the firm, *with or without the participation of all or some members* of the [existing Brazilian] firm".⁶⁶ By contrast, the Indian Amalgamations group, a Madras-based auto component manufacturer, was pushing the government to enter truck assembly in partnership with the US firm Studebaker, which by this time was having contractual difficulties with Birla's Hindustan Motors.⁶⁷

⁶⁵ Cited in Shapiro (1994:55).

⁶⁶ Memo from American Consular General, Sao Paulo to State Department, June 23, 1959. National Archives, RG59, 811.05132/6-2359, emphasis added.

⁶⁷ Birla wanted to exit the Studebaker partnership in order to work with GM.

Ultimately, Brazilian parts manufacturers were edged out of the Brazilian market just like Brazilian assemblers. As foreign assemblers entered the market, they encouraged their overseas suppliers to follow suit, resulting in the Brazilian auto components industry that had been exclusively local before 1955 becoming increasingly dominated by foreign firms. A 1962 survey suggested that of 156 medium and large auto component firms, only 24 were foreign but these firms accounted for 52% of the capital stock of the sample. The takeover process began within the first few years of foreign firm entry, and followed a pattern that is typical in partnerships between local and multinational firms. For example, the Brazilian firm Albarus S.A. had been in the market since 1947 and began supplying transmission components to Ford in 1949. The company signed a technical assistance contract with the Dana Corporation in 1955, and within 2 years Dana controlled 63% of the company's shares. Dana employed a common acquisition strategy to gain a controlling interest, trading shares in Albarus for royalty payments and capital equipment imported under Instruction 113 (Shapiro, 1994:202). Cash-strapped developing country firms face difficult choices in these situations: they can either refuse the new equipment which facilitates an expansion of the business (and perhaps risk losing their partner in the process, as he will cite the a mismatch in the firms' ambitions), or agree to expand while ceding ownership of their firm. This is a tactic that MNCs also tried to use in India, both during the post-war ISI period and especially during liberalization in the 1990s. However, as Chapters Seven and Eight show they had significantly less success due to major policy interventions by the Indian government based on Indian business and government continued preferences for retaining Indian control of industry. By contrast, the Brazilian government offered little protection to Brazilian firms and by the mid-1960s the auto components sector was dominated by multinationals.

The analysis of diplomatic cables reveals similarly contrasting preferences in the area of tractor manufacturing. On Nov 16-20, 1959, the Sao Paulo State Secretariat of Agriculture sponsored a symposium on the Manufacture of Tractors and Agricultural Equipment that was well-attended by senior representatives of key government agencies including the GEIA, the Brazilian National Development Bank (BNDE) and the Bureau

for Currency and Credit (SUMOC) as well as business figures and others. A key outcome of the initiative was the view that “The technical and administrative experience of the motor vehicle and parts industry should be put to good use, *without prejudice*, however, to foreign traditional tractor makers who may wish to establish themselves in Brazil.” The symposium generated a set of 18 recommendations, three of which directly pertained to the role of foreign capital and are specifically worth noting:

1. The motor vehicle manufacturing industry should be financed and managed by private industry and not by Government-owned or financed companies.
2. **Foreign companies can better finance, organize and operate the motor vehicle industry than purely local firms**; those already operating in Brazil as assemblers of motor vehicles will be given preference over other foreign companies.
3. Local companies can most effectively contribute to the National Automotive Industry Plan **as manufacturers of parts or as sub-contractors to foreign motor vehicle manufacturing companies.**

Not only was there little encouragement for Brazilian firms to become tractor assemblers, there was an explicit assumption that local firms would at best serve as component manufacturers or subcontractors to foreign firms.⁶⁸ Any ‘discrimination’ would be directed towards foreign firms that had already set up in Brazil over others that may come in later, rather than towards Brazilian owned firms! This was precisely the opposite view that prevailed in India.

Shapiro (1994) attempts to justify the GEIA position by suggesting that neither Ford nor GM “with whom the Brazilian authorities had the most experience” had licensed technology nor partnered with local firms elsewhere, adding “It is important to note that, at the time, no other peripheral country had successfully built up a domestic industry on the basis of ‘national champions’” (Ibid, 43,fn31). However, as we have seen in this chapter, this was the same period when Indian government authorities and Indian firms were engaged with negotiations with both Ford and GM, as well as Chrysler, Fiat and several other multinational auto firms. Even though their bargaining positions were similar, as the extensive literature on bargaining with multinationals would hold (cf. Encarnation and Wells, 1985), and they faced the same financial and technological constraints as their Brazilian counterparts, Indian actors had an entirely different

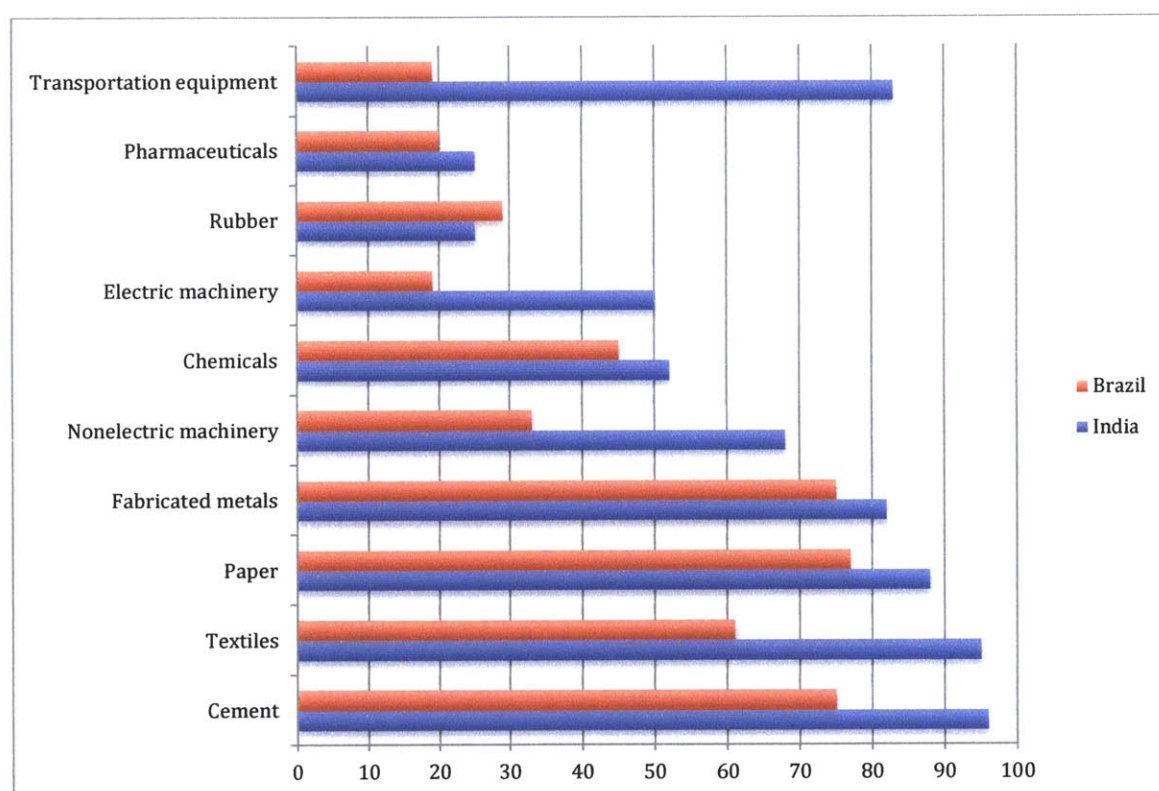
⁶⁸ Memo from American Embassy, Rio de Janeiro to State Department, August 14, 1956. National Archives, RG59, 823.3331/8-1456.

approach to foreign investment. These preferences resulted in different outcomes even with the same US multinational firms that eventually dominated the Brazilian market. GM had been present in India as a pure CKD assembler since 1928 but despite government pressure refused to take on an Indian partner in the post-independence period and shift to integrated production. As a result the government gradually withdrew its license and GM was obliged to exit the market in the 1950s. On the other hand, Ford agreed to partner with Mahindra and Mahindra and remained in the country. As already noted, these outcomes had important long run effects on the development of Indian manufacturing capabilities in the sector. Mahindra and Mahindra is today is one of India's largest indigenously owned auto assemblers, and in interviews firm officials consistently cite the manufacturing experience from the post-independence era as a major explanation for their current success. The same holds for other leading firms such as Tata Motors and Bajaj Auto. This speaks to the long-term implications of these radically different Indian and Brazilian FDI preferences for industry and market structure.

The Brazilian government also ignored the option of Brazilian auto firm ownership through the state, even though there was already a well-positioned state owned firm in place. The National Motor Factory (Fabricio Nacional de Motores, FNM) was established during WWII to manufacture airplane engines for the Allied war effort and with the transition away from wartime production, provided an option for the Brazilian government's auto production plans. In fact, in 1948, well before the GEIA was convened, the firm was assembling trucks under technology license from the Italian company Isotta-Franschini, producing 50 trucks per year with 30% domestic content. Though Isotta went out of business in 1951 the Italian government arranged a new contract for a more technologically advanced truck with Alfa Romeo and by 1956 FNM was producing trucks with 70% domestic content and was credited with providing a large boost to the locally owned auto components industry. However, the government decided that its performance was weak and Meira's GEIA report hardly mentioned FNM. The final plan ultimately accorded the firm a marginal role in the industrial plan dominated by foreign capital, and FNM was eventually bought out by its foreign partner Alfa Romeo. By contrast, as Chapter 7 will show, India launched its liberalization process in the early

1980s with the creation of a state-owned auto firm with minority participation by Suzuki. The joint venture Maruti Udyog received heavy financial support and policy protection and quickly dominated the passenger car segment. Maruti revolutionized the Indian auto industry by introducing modern production technologies and, much like FNM, facilitating major capability upgrading amongst Indian auto component producers. Just as the aging Hindustan Motors Ambassador represented the protectionism of import substitution, the modern new Maruti-Suzuki 800 symbolized the possibilities of the liberalization era.

Chart 1. Domestic Market Share in India and Brazil, 1971



(Source: Adapted from Encarnation, 1989)

Finally, this variation across India and Brazil was not restricted to enterprises in the nascent auto industry. Similar patterns of ownership prevailed across the industrial sector with Indian firms consistently having higher levels of market share relative to foreign firms than their Brazilian counterparts. As the chart above shows, Indian firms dominated the auto industry market, and were the market leaders in all other technology-intensive manufacturing industries with the sole exception of pharmaceuticals, while Brazilian

firms had consistently lower market share than multinationals in every area except rubber.

The ideas driving variation in firm ownership between India and Brazil in other industries including pharmaceuticals was the same as described in the auto industry. This is evidenced by a June 6, 1958 US Diplomatic cable reporting interest from the “well-known” Sao Paulo-based pharmaceutical laboratory firm Industria Farmaceutica Endochimica S.A. in “associating with an American laboratory,” adding that “For this purpose it is willing to sell half the shares in the company for approximately US\$1.5 million *and pass on managerial control* to the enterprise with which it associates.”⁶⁹ This fits the pattern observed in an extensive analysis of hundreds of similar cables across a variety of manufacturing industries from 1945 through 1974 and exemplifies the sharp contrast between Indian and Brazilian preferences towards foreign investment.⁷⁰

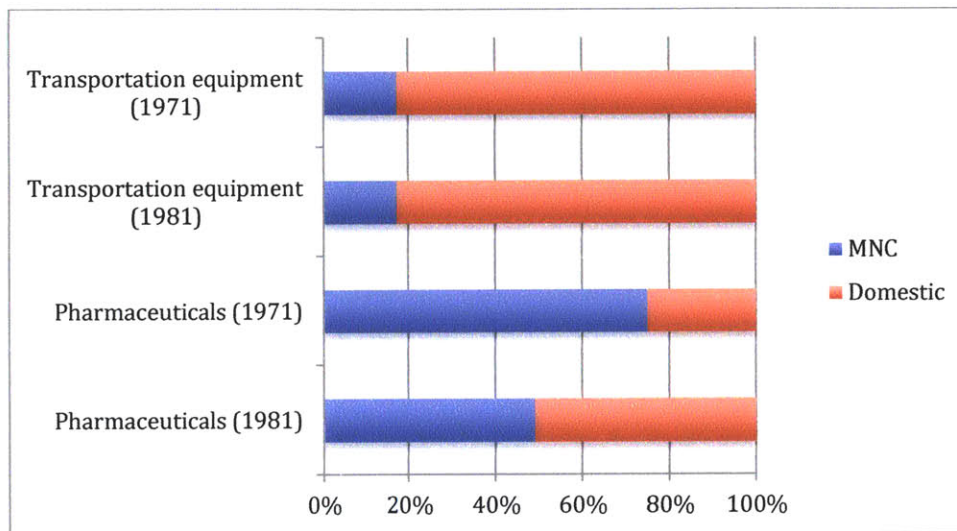
This difference in firm ownership between Brazil and India grew sharper over time, even in the face of common external shocks. Like most developing countries, both India and Brazil faced major foreign exchange shortages and balance of payments crises in the 1960s, yet they continued to respond in almost opposite ways. Brazil moved to increase foreign exchange inflows by encouraging greater FDI entry, while India sought to decrease foreign exchange outflows by restricting foreign firms’ ability to repatriate profits. As the 1960s progressed the Indian government tightened restrictions on FDI. It also made steps to restrict the growth and expansion of Indian private firms in a bid to increase control of the economy through state owned firms (plus small scale reservations). These growing restrictions on foreign investment culminated in the passage of the infamous Foreign Exchange Regulation Act (FERA) FERA was launched by Nehru’s daughter Prime Minister Indira Gandhi in 1974 and required all foreign firms to reduce their shareholding to a maximum 40% and tightened controls on technology licensing. FERA had a major impact on a range of industries. The chart below shows the extent of the shift. Whereas Indian firms continued to dominate the automobile industry,

⁶⁹ Memo from American Consular General, Sao Paulo to State Department, May 6, 1958. National Archives, RG59, 811.05132/5-658.

⁷⁰ This can be characterized more systematically in later iterations of this chapter.

they also assumed control of pharmaceuticals as the imposition of FERA appeared to trigger a collapse of the multinational share of the industry from 77% to 48% in less than a decade.⁷¹

Chart 2. Shift in Foreign and Domestic Market Share in the India, 1971-1981



(Source: Adapted from Encarnation, 1989)

The pharmaceutical industry is especially useful to consider given the passage of the 1972 Indian Patents Act, which lowered barriers to entry and encouraged massive innovation allowing chemicals and drugs patented elsewhere to be freely copied, produced and sold in India. These industry developments are useful to note not only because India is now a global leader in generic drugs, but also because Brazil also relaxed its patent regime. However, as the analysis presented in this chapter would predict, multinational firms were best positioned to capture most of the gains in Brazil. The

⁷¹ FERA was a crucial intervention as it allowed many domestic firms to partner with MNCs. However, there was important variation in the structure of these joint ventures and relationships between partners. For example, many MNCs did dilute their equity holdings but retained managerial control through clever board structures and use of preferential shares. Thus many Indian firms were not much more than 'sleeping partners' in these policy-induced JVs. The political dimensions of this dynamic would become crucial when FDI liberalization began 1991, both in terms of business politics as MNCs sought to raise ownership and squeeze out domestic partners as well as the legitimacy that was ascribed to the competing parties as some of these relationships became public and contentious.

Brazilian government was also nationalist and statist in the 1970s but promoted both state enterprises *and* MNCs (Evans, 1979; Newfarmer, 1979).⁷²

VI. Conclusion

This chapter analyzed the different ways that economic actors in India and Brazil perceived FDI and the role of foreign firms in supporting post-war industrialization efforts in the automobile sector. It showed how despite perceiving similar development problems, identifying a common solution through industrialization and occupying similar structural positions, India and Brazil pursued radically different approaches to regulating foreign firms. This variation was driven by divergent historical narratives that produced contrasting cultural schemas and is epitomized by the industrial policies and firm strategies that were employed in both countries in the common goal of developing a locally based auto industry. The analysis challenges theories that rely on deducing economic interests and policy preferences from actors' structural position and highlights the merits of an alternative theorization of preferences as social constructs that are formed through deeply social, historical and political processes.

Foreign firm entry was seen as a necessity in both countries, primarily for the technology that it was expected to bring as well as the hard currency inflows it represented. Nevertheless, the regulatory approach to foreign investment was markedly different despite the two countries' similar structural positions in the global economy. Both pursued 'nationalistic' policies, but the content and implications of Indian and Brazilian nationalisms were radically different. Ultimately, the FDI policy regime adopted in Brazil emphasized domestic production by MNCs behind high tariff barriers as a means of reducing imports while the rationale of Indian industry rested on promoting domestic rather than foreign ownership and control of firms in the technology intensive manufacturing sector.

⁷² Further, Newfarmer (1979) suggests that by leaving the 'market for firms' unregulated the Brazilian government in effect facilitated the takeover of many firms/control of industries by MNCs. This non-action speaks volumes to preferences, and contrasts with the actions in the Indian case that run in precisely the opposite direction, as exemplified with FERA i.e. not only could MNCs not takeover firms in India post-1973, in fact the goal was to have Indian firms/actors gain ownership and control of industry and of previously foreign owned firms.

This chapter not only challenges structural-deductive theories in the rational choice tradition, it also offers an alternative set of explanations for constructivist political economic analyses. Sikkink (1991:51) suggests that the Latin American paradigm of ‘developmentalism’ emerged as an outcome of nationalist desires for state-directed industrialization coupled with international demands for openness and the availability of international finance, especially FDI. She suggests that the preference for heavy industry embedded in the developmentalist system of thought created a “built-in bias” towards foreign capital given the technical and financial limitations of domestic industrialists (Sikkink, 1991:33). However, the preference for heavy industry in the developmentalist cultural schema was also an important element of Indian scientific socialism, and yet each system of thought assigned radically different roles to foreign capital. The Indian case shows that the nationalist desire for modern heavy industry did not have to produce a preference for foreign capital. Instead, Brazil’s relatively benign historical experience with British merchant firms during its ‘classic development’ phase coupled with its growing orientation towards the West and wartime collaboration with the US produced radically different preferences towards the role of foreign firms in promoting rapid industrial development. By contrast, Indian actors’ colonial experience generated powerful cultural schemas oriented around anti-imperialism that continued to shape Indian attitudes towards foreign capital long after independence. Sikkink (1991) supports her argument by citing the coinciding timing of Brazil’s balance of payments challenges in the early 1950s with the pro-FDI planning as a fortuitous fit. However, as argued throughout the chapter, India faced similar macroeconomic constraints in the late 1950s and had the same opportunities to access international finance, but nevertheless Indian state actors were unwilling to significantly change course. They retained their commitment to domestic ownership and control of Indian industry.

Finally, the difference between Brazilian and Indian capitalists was similarly stark. Indian industrialists recognized that foreign investment was important for technology acquisition, but refused to relinquish majority ownership and managerial control, while Brazilian capital was far more willing to take on the ‘junior’ role that Evans (1979)

identified as a crucial characteristic of Brazilian 'dependent development'. This had major implications for firm strategy and patterns of ownership and control in the respective auto industries. The Brazilian auto industry was launched with MNCs having the dominant role, a position that they enhanced and consolidated over the course of the first fifteen years. By contrast, Indian firms dominated the auto industry from its establishment and continued to maintain control throughout the import substitution period and well into the more recent era of economic liberalization, as Chapter Seven of this dissertation will show.

CHAPTER 7

Agency and Creativity in Cultural Schema Construction: Populist Socialism and Aspirational Consumerism

So much of the thinking within economics and economists was to do with the government being a predator...Now, we have an example where we did this [liberalization], where we were taking away power from ourselves. No one else told us to do it. It was totally *suo moto* [government acting on its own cognizance]. It was actually because of **force of ideas**. So in that sense I think that something particular to do with government policy and so on. Economists' thinking is too simplistic, and in some sense they devalue themselves by not recognizing the force of ideas, which Keynes did. **Keynes always talked about the force of ideas.**

-- Interview with former Senior Economist, Government of India, New Delhi, April 2011.

I. Introduction

Causal ideas are central elements of policy preferences, as this dissertation has argued and the above quote suggests. However, the role of ideas has been a source of controversy in the literature over the past two decades. This chapter assesses the role of economic ideas in the process of preference formation and change. It does so through analysis of the rise of new causal ideas and the social and cultural systems of meaning in which they are embedded.

After providing an overarching theoretical framework in Chapters One and Two that argued that preferences are shaped by cognitive and cultural schemas -- rationalized causal ideas imbued with historically salient social meaning -- Chapters Three, Four and Five on Nationalist Origins, Capitalist Origins and the Nehru-Gandhi debates showed how preferences towards foreign capital emerge through historically-embedded processes of social construction and political contestation. Chapter Six then introduced the comparative case of Brazil to challenge 'static' structural-material theories of the sources of preferences by showing how preferences vary across firm and government actors that occupy similar positions in the socio-economic structure. Having shown how preferences emerge and differ across similarly situation actors, the next two chapters outline the socio-political mechanisms through which foreign direct investment (FDI) policy preferences change over time.

This dissertation has shown that preferences are neither fixed nor exogenously determined but are shaped by socially constructed cognitive and cultural schemas. However, this raises the following question: if actors see the world through schemas -- widely held belief systems that posit rationalized causal ideas imbued with deep social and historical meaning -- how do schemas, and hence preferences, change? If preferences are not unambiguously given, but are developed through a social process in which actors utilize cultural schemas to interpret the world and their situation within it, what are the mechanisms through which this process might unfold? Do preferences change through processes of social learning where actors seek new economic ideas and information to update their preference orderings via 'rational' processes of Bayesian learning (Bates et al, 1998; Weingast, 2005)? Or do preferences change through more 'constructivist' processes where actors adopt new ideas that diffuse through epistemic networks and alter their belief systems (Dobbin et al, 2007)? That is, does the process occur solely in the minds of individuals or is there a social dimension where collective social meanings, cultural symbols, narratives and tropes come in to play. Finally, is there a role for discourse, debate and political contestation in the process of adopting new policy ideas and the rise and fall of 'policy paradigms' (Hall, 1993; Schmidt, 2008)? And are these alternative 'sociological' and 'scientific' mechanisms of preference change compatible, as the three-stage model in Hall's (1993) seminal article argues, or are they inherently incommensurable, as Blyth's (2011) critique suggests?¹

This dissertation argues that while both rational Bayesian and social learning perspectives in comparative and international political economy rightly stresses the role of causal ideas, a crucial missing element is the social meaning with which causal ideas must be imbued, the salient historical narratives in which they must be embedded and the cultural symbols that must be utilized in conveying causal ideas in order for them to be fully internalized. That is, ideas that are weakly embedded or do not fit the historical narratives

¹ Dobbin Simmons and Garrett (2007:450) also identify crucial differences in arguing that "Constructivists and learning theorists agree that changes in ideas lead to changes in policy, although constructivists point to theory and rhetoric as the source of new ideas and learning theorists point to rational, observational deduction." Hall (1993) brought these two positions together in his three stage mode of preference and Kuhnian paradigm change and Blyth (2011) later suggested that they reflect incommensurate positions. This is elaborated in Chapter Two.

and collective social memory of a given society have little chance of resonating with societal actors much less shaping preferences and behavioral outcomes. Imbuing ideas with social meaning is thus crucial, but it does not happen naturally; it requires significant agency and creativity on the part of strategic political and economic actors. These actors, often prominent figures in business or the state with access to valuable social, political and economic resources, utilize widely understood cultural symbols to devise and deploy new schemas that posit different roles for foreign and domestic capital in the nationalist development project (Douglas, 1986; Swidler, 1986; Sewell, 1992). This chapter thus contributes to the literature on preferences, social learning and the politics of ideas by highlighting the socio-historical and cultural embeddedness of ideas along with the role of agency in shaping political and economic outcomes, which are often downplayed or ignored in rational choice, historical institutional and even some sociological institutional formulations of the new institutional literature.²

This chapter will show how preferences change as established cognitive and cultural schemas become delegitimized by economic and political developments that violate the promise and expectations of the dominant view. However, it goes beyond existing theorizing in comparative political economy about the role of policy ideas and legitimacy (Hall, 1993; Blyth, 2002) by stressing the socio-cultural and historical embeddedness of causal ideas. These developments provide an opportunity for strategic actors to construct novel cultural schemas by imbuing new causal ideas with historically salient social meaning. India's rich and dense social fabric, replete with generations-old socio-economic, ethnic and religious tensions that are continually reproduced through cultural tropes embedded in the social memory provides the perfect empirical setting to elaborate this theoretical argument of the source of preferences in cultural schemas.

The chapter builds on earlier arguments by highlighting the agency and creativity demonstrated by Indira Gandhi as she developed and deployed new cognitive and cultural schemas: first populist socialism when she first became Prime Minister during the tumult of the late 1960s, and then aspirational consumerism upon her return to power in 1980.

² This is a central argument of the 'twin-tensions' framing in the introductory chapters.

While the analysis of changing schemas and FDI preferences in this chapter remains largely at the policy level, the next chapter highlights the political contestation that took place through discourse and debate between state and firm actors and the implications for preference change. This discursive contestation occurred when the aspirational consumerist schema that heralded the beginning of economic liberalization in the 1980s fractured in the 1990s as an increasing number of state and business actors attempted to recast it ways that would serve their perceived interests. Throughout both chapters the analysis is oriented around FDI policy, beginning with state actors in this chapter before shifting to the interaction between state and firm actors in Chapter Eight. The dissertation thus concludes by highlighting the interaction between FDI policy and firm strategy, particularly around Indian firms' joint venture strategies with multinational corporations.

The chapter is organized as follows. Section II describes the delegitimization of the Nehruvian scientific socialist cultural schema that rose to the level of a cohesive 'policy paradigm' (Hall, 1993) that dominated Indian policymaking through the first two decades of independence, before losing legitimacy amidst the economic stagnation and rising social and political tensions of the late 1960s and 1970s. This turbulent period, which saw the emergence of Indira Gandhi's populist socialism, is characterized by political fragmentation and increasing controls on domestic big business and foreign capital as Mrs. Gandhi deployed a set of historically salient cultural symbols to articulate increasingly populist and anti-capitalist rhetoric. Section III considers the brief period of Janata Party rule after Indira Gandhi's electoral defeat in 1977 and the implications for FDI policy, including the expulsion from India of two of the most iconic American multinational firms. Section IV analyzes the return of Indira Gandhi and the development of the aspirational consumerist cultural schema that would drive the march towards liberalization from 1980 to the present. This section analyzes the implications of this schema for changing FDI preferences and the 'pro-business' attitudinal shift that marked the early stages of India's economic reforms. Section V continues by assessing the role of Rajiv Gandhi in furthering the aspirational consumerist cultural schema. Rajiv symbolized of a new Indian modernity that combined large-scale private Indian capital and foreign technology. His assumption of the Prime Minister's office signaled an

increasingly global outlook and cemented India's drive towards liberalization. Section VI concludes with a brief summary of the arguments in the chapter and an introduction to the next and final empirical chapter of the dissertation.

II. Social and Political turmoil of the 1960s and 1970s:

The Decline of Nehruvian Scientific Socialism and Rise of Indira Gandhi's Populism

In 1964 Jawaharlal Nehru became ill and died after holding the office of Prime Minister continuously since independence in 1947. Nehru's widespread popularity and legitimacy as the architect of independent India served to consolidate the new Indian nation under the aegis of secular nationalism and 'socialist' planning after the triumph of independence and the trauma of the country's partition into India and Pakistan. Nehru generated a tremendous level of admiration and the high esteem in which he was held at home and abroad provided broad-based confidence that the Indian democratic experiment could succeed. Nehru's position was so strong that even the editors of *The Times of India* found it striking:

It is a strange phenomenon of present-day [1951] Congress politics that while the rank and file do not see eye to eye with the Prime Minister...they idolize him and applaud his speeches even when he gets tough with them...They want him at all costs because **he alone comes nearest to the Father of the Nation** in his personal and political conduct, and has attained an international stature unique in the history of modern India.³

The Nehruvian scientific socialist cultural schema analyzed in Chapter Five rose to become a dominant policy paradigm by virtue of its wide social acceptance and deep institutionalization in the ministries and other bureaucratic and policymaking organizations of the post-independence Indian state. However, despite his authority, India's disappointing post-independence growth record meant that the dominant Nehruvian policy paradigm began to appear vulnerable even before his death.⁴ Though the Indian government achieved much in the area of heavy industrial development and the creation of elite institutions of scientific research and higher learning -- key pillars of scientific socialism -- mass poverty increased over the period as economic growth

³ *The Times of India*, Summer 1951, cited in Frankel 2004:704.

⁴ This is consistent with the predictions of social learning theories such as Hall (1993).

became stuck at the 'Hindu rate of growth': a steady average of 3.5% that was rendered effectively stagnant in per capita terms given India's high population growth.

Chapter Five showed how scientific socialism directed attention to state industrial planning and 'development from above' by coupling public investment in heavy industry with control of private capital through the extensive industrial licensing system that became disparagingly known as the 'license-quota-permit raj'.⁵ However, while the Nehruvian scientific-socialist policy paradigm was broadly developmental once implemented it proved to entail a fairly shallow commitment to the poor. Beyond limited land reform and passage of some urban labor law little was done in creating pro-poor institutions; even core areas of service provision like basic health and primary education were largely ignored, despite Nehru presiding over a purportedly 'socialist' regime (Kohli, 2004). Nehru was not alone in sidelining the needs of the hundreds of millions of desperately poor Indians, as most Congress Party elites were conservative in this respect. However, since he embodied the developmental approach that bore his name it was Nehru who ultimately shouldered the legacy of India's abysmal poverty. Nehru himself came to realize and accept in his last few years in office that India's persistent poverty cast a pall over his sterling achievements in domestic heavy industrial development and foreign policy. Scientific socialism had failed to fully deliver on its developmental promise thus Nehru's legacy was compromised.⁶ The co-existence of his genuine compassion, impeccable character and internationally acclaimed statesmanship with India's widespread squalor and poverty led Barrington Moore (1966) to famously describe Nehru as 'the gentle betrayer of the masses'.

Economic policy disappointments in the first two decades of independence were compounded by a humiliating military defeat to China in 1962 and another war with Pakistan in 1965. These were followed by a major drought in 1965-66 that severely impacted food availability. As indicated in Chapter Three, monsoon-dependent India

⁵ The term 'Raj' means regime, and was used to describe British rule. The application of the term to the peculiar form of import substitution policies pursued by the Indian states thus reflects both the oppressive constraints it was perceived to represent.

⁶ In fact even Nehru's policy preferences seemed to begin to shift in the early 1960s.

suffered periodic famines throughout the British colonial era with each bout killing millions of India's rural poor. The 1965-66 drought came at the worst possible time, as the impact of the sudden 17% decline in food grain production was exacerbated by the reduction of the US PL480 food aid program as the Johnson administration sought to punish India for its outspokenness against US imperial activities in Viet Nam (Chaudry et al, 2004; Mukherjee, 2012:14; Frankel, 2005).⁷ The situation was exacerbated by overseas purchases of food grains, military arms and capital goods for hunger relief, military activities and industrial development efforts. These hard currency expenditures drained foreign exchange reserves from a peak of \$1.9 billion in the mid-1950s, when India still held the high sterling balances that were discussed in Chapter Six, to less than \$500 million in 1965. The severity of India's macroeconomic position was made overwhelmingly clear in March 1966 when the central bank's holdings were only \$29 million above the legally required import cover (Chaudry et al, 2004). These factors sparked a major balance of payments crisis that forced India to engage with the IMF and the World Bank.

There were similarly tumultuous developments in Indian politics. Upon Nehru's death in 1964 Lal Bahadur Shastri won an internal struggle for Congress party leadership and became India's second prime minister. Shastri was a close supporter of Nehru and a political moderate who was broadly acceptable amidst the deepening rivalries between conservative and progressive factions within the Congress, particularly between Nehru's main rival Morarji Desai and a group of senior party officials that came to be known as the 'Syndicate'.⁸ However, Shastri's administration was curtailed by his own sudden

⁷ Chaudry et al (2004:61) provide further detail on this episode: "In 1965, with reports of a food shortage looming across India, US President Lyndon Johnson displayed a strong interest in re-evaluating the US economic aid programme to India begun by the Truman administration. The President, who became personally involved in the details of the aid process, was willing to exercise strong 'leverage' before distributing aid to the leader of the non-aligned countries. The Johnson administration was deeply frustrated by India's lack of self-sufficiency in food production and its strident criticism of US involvement in Vietnam. Robert Komer of the National Security Council advised President Johnson, 'Let's tell the Indians we're not very happy with them either, especially their tendency to take our aid for granted without doing enough to help themselves or to recognise that we're fighting their war [against Chinese aggression] in Vietnam'" (Chaudry et al, 2004:61).

⁸ While Nehru refused to anoint a leader during the several months of the illness that led to his death, he also appeared to consider Shastri the best choice to ensure continuity of his policies and crucially, to keep

death in January 1966 and his attempts to implement some moderately liberal reforms met with limited success, doing little to bolster the legitimacy of the Nehruvian scientific socialist policy paradigm and attendant development model.⁹

The struggle for control of the Congress resumed and divisions between the Syndicate and Desai led the former to choose Nehru's daughter Indira Gandhi as Prime Minister. Though Mrs. Gandhi was Nehru's only child and, following the death of his wife Kamala, his closest confidante, she was nevertheless considered a non-threatening choice by Congress elders and was chosen despite misgivings amongst more conservative Syndicate members about her leftist leanings. Instead, Syndicate members "opined that [Mrs.] Gandhi could serve as a non-threatening PM and 'a convenient instrument' until significant differences within the senior leadership had been resolved" (Frankel, 1978; Mukherji, 2012:10). This would prove to be a major miscalculation. Though Indira Gandhi had little standing amongst the old guard Congress elites, she was hugely popular amongst the growing young progressive cadres and radical socialist activists in the party. Even more crucially, she enjoyed tremendous appeal among the Indian masses more broadly, particularly socio-economically marginalized lower caste Hindus and Muslims.¹⁰ Her appointment thus symbolized continuity in the Congress Party's rhetorical commitment to the goals of socialism and secular nationalism (Frankel, 1978).

Desai out of power. However, it is unclear but unlikely that Nehru's real intention was to pave the way for his daughter Indira Gandhi (cf. Frankel, 2005).

⁹ In fact, contrary to expectations that his policies would reflect continuity, in his brief 20 months in office Shastri quietly moved away from Nehruvian planning and towards an incentive rather than regulatory control approach to private (foreign and domestic) business, indicated little faith in the efficacy of public versus private sector enterprise, and sought to pay greater attention to agriculture than industry (Frankel, 1978:246-52). Shastri's term in office thus reflected an initial attempt at liberal economic reforms.

¹⁰ Mrs. Gandhi's credentials as a nationalist leader were sound having been imprisoned by the British as a young woman for her political activism during the 1942 Quit India movement. She followed this up with several years of 'on the ground' party activism while her father was Prime Minister, and she had been given what was seen as a minor cabinet position as Minister of Information and Broadcasting during the short-lived Shastri administration. However, the allocation of the information portfolio would in many ways prove to be foreshadowing: During her time in Shastri's cabinet she was the only one that could attract a crowd as large as the prime minister. This would apparently serve her well over the course of her first administration that became increasingly populist, as well as when she returned in the 1980s.

Indira Gandhi's Precarious Political Position

Indira Gandhi thus assumed the Prime Minister's office with significant angst about the stability of her position. The legitimacy of the dominant Nehruvian scientific socialist policy paradigm, which had defined the nationalist development project and united the country, was weakening and she was rightly distrustful of her senior Congress colleagues who hoped to take advantage of her political inexperience (Frankel, 2005; Mukherji, 2012). Most pressingly, she was immediately faced with the macroeconomic crisis that forced India to enter into negotiations with the IMF and the World Bank.

Indira Gandhi led a team of senior technocrats to Washington DC in the Spring of 1966 to negotiate with the IFIs and the Johnson administration, which under Congressional pressure had already placed India on a 'short-tether' policy of making desperately needed food aid conditional on improvements in agricultural efficiency and population control. Johnson became personally involved because of India's antagonistic stance on the Viet Nam war and its influence in the developing world as a leader of the non-aligned movement. He hardened the US position by instructing Secretary of State Dean Rusk that the US government would only be willing to sanction support to India if it accepted the recommended reforms and either remained neutral or actively supported US military activities in South-East Asia (Chaudry et al, 2004). Though Indira Gandhi charmed the American media and made a favorable impression upon the American public Johnson was not swayed; instead he tightened the US government response to famine-stricken India's food aid requests by releasing ships month by month, prompting even the American Ambassador to India to describe Johnson's move as "a cruel performance" (Guha, 2008).¹¹

Indira Gandhi and her team were in a bind. The international financial organizations had joined forces with a politically motivated and hostile US government to push the now-familiar package of liberal economic reforms that included currency devaluation, trade

¹¹ The Ambassador continued by baldly stating Johnson's objective: "The Indians must conform; they must be made to fawn; their pride must be cracked" (cited in Guha, 2008).

and FDI liberalization, credit rationing and wage moderating fiscal austerity.¹² Moreover, there was recognition that the Nehruvian economic policy approach had not worked: economic growth was low, poverty and social instability were on the rise and the 1957 foreign exchange crisis coupled with the current balance of payments crisis revealed deep-rooted macroeconomic vulnerabilities in the Indian economy.¹³ Domestic political weaknesses had also come to the fore. Economic policy failures were challenging the previously unshakeable image of the Congress Party amongst the wider Indian public as the party with the capacity to spearhead development and social transformation (Frankel, 1978:389). This is precisely the point where Hall's (1993) model would predict the beginning of preference change through rational search and experimentation with policy alternatives.

Despite India's macroeconomic challenges the orthodox prescriptions from the IFIs met strong resistance from Indira Gandhi and her team. Mrs. Gandhi's lack of policy experience made her heavily reliant on a tight circle of carefully chosen advisors. The LSE-educated P.N. Haksar led the group and became her principal secretary and most important source of guidance.¹⁴ These technocratic elites held strong pro-state and anti-market views and were not keen on the proposed reforms. Not only did the proposals by the Bank and Fund to liberalize trade and foreign investment run directly counter to the tenets of scientific socialism, the pressure to adopt these reforms by the Washington D.C. based IMF-World Bank-US Treasury triumvirate was antithetical to the deeply-held anti-imperialism upon which the nationalist movement was built. The opposition was so strong that the highly influential Finance Minister T.T. Krishnamachari, who had been

¹² This was one of the first attempts by the international institutions at providing conditional aid to a developing country. The World Bank Bell Mission Report made six key recommendations as conditions for providing India with financing: (1) devaluing the Rupee (2) removal of direct controls on intermediate good imports (3) increased investment in agriculture and (4) increase agricultural investment (Mukherji, 2012:9; see also Chaudry, 2004).

¹³ Hall (1993) would suggest that these empirical 'anomalies and disappointments are [the] first stage of learning', [which would result in shifts in instruments and settings]. We will return to this later in the chapter.

¹⁴ Indira Gandhi and P.N. Haksar were also both Kashmiri Pandits from the same hometown, attended university in England around the same time, and had many friends in common. In addition to Haksar, this circle included T.N. Kaul, D.P. Dhar, P.N. Dhar and R.N. Kao – all Kashmiri Brahmins as well – who were known as the *Panch Pandava* after the five heroic brothers of the epic Sanskrit Mahabharata (Guha, 2008).

Nehru's close colleague and a major figure in his cabinet for the two decades since independence, resigned in December 1965 in protest against the initial proposal of US government-backed reforms.

These anti-imperial preferences would shape India's response to the liberal proposals from Washington. Despite the weakening of Nehruvian scientific socialism and overwhelming political pressure from the US, the Indian team resisted many of the IFI's recommendations. As Krishnamachari's bitter objections and eventual resignation showed, Bank staff and Indian technocrats understood the crisis through different interpretive frames that posited radically different causal ideas with different implications for policy action. India eventually acquiesced to a reform package that included a 58% devaluation of the rupee given the severity of the crisis and the desperate need for emergency concessional finance. Chaudry et al (2004:63) argue that "in reality...Indian authorities were not keen to abandon the strategy of import substitution industrialization" and maintained many of the tariffs and subsidies that constituted the policy regime. In essence, "the GOI had reserved the right to continue to pursue an ISI strategy once [the] harvest improved and the crisis passed" (Ibid:63).¹⁵

These preferences against liberal reforms were not restricted to India's technocratic elite; they were widely held amongst the general public reflecting the depth and breadth of shared social understandings. As soon as the details of the devaluation became public there was a powerful backlash from the political and wider social realm. The devaluation sparked broad-based cross-party resistance in the legislature and wider Indian society. Prominent commentator Inder Malhotra, *The Guardian's* India correspondent and editor of the *Times of India*, recalled:

All hell broke lose. Public opinion was aroused as never before except against the Chinese invasion earlier. The entire opposition, from the extreme left to the extreme right, condemned the devaluation unequivocally.¹⁶

¹⁵ Guha (2008) following Mukherji (1966) actually suggests that the Indian government went well beyond the IFIs recommendations in the depth of the devaluation.

¹⁶ Statement from Malhotra's (1989) *Indira Gandhi: A Personal and Political Biography*, cited in Chaudry et al (2004:63).

The anti-imperialism cries were immediate and strong. Congress Party President and Syndicate leader K. Kamaraj saw the devaluation as undermining *swadeshi* self-reliance. Communist MP Hiren Mukherjee went further by denouncing the devaluation as being “forced on India ‘by the cloak and dagger aid givers of America’” while a communist trade union called it ‘a shameful act of national betrayal’ (Guha, 2008). The only support came from the free-market Swatantra Party whose main parliamentary spokesperson suggested that:

if devaluation constituted a first step in a policy of economic realism in place of the doctrinaire policies pursued by the Congress government, it would have some desirable results in boosting the exports and promoting the inflow of foreign capital.¹⁷

It should come as no surprise that this backlash was framed in anti-imperialist terms. Devaluation was not perceived by most Indians as an objectively reasonable technical solution to a macroeconomic crisis, but as India submitting to the United States in the face of pressure to cease condemning its neo-imperial activities in Viet Nam. The reaction underscored the deeply embedded salience of anti-colonialism in Indian society. Despite growing disillusionment with the policy outcomes of Nehruvian planning the Indian polity still understood the world through an anti-imperialist framework, clearly demonstrating to the Indian political class that this element of scientific socialism retained deep salience in Indian society. This public reaction did not go unnoticed by strategic political actors: Indira Gandhi and P.N. Haksar both recognized the powerful salience and social meaning of anti-imperialism and would utilize it in the construction of a new cultural schema in the face of the declining Nehruvianism scientific socialism.

Political Fragmentation and Indira Gandhi’s Response:

Populist Anti-Capitalism and Garibi Hatao

Though the 1966 macroeconomic crisis was averted, Indira Gandhi still faced a host of social and political challenges. She was appointed leader of the Congress amidst growing internal divisions within the party and external threats as new parties arose to challenge its political dominance. As the legitimacy of the cohesive Nehruvian secular nationalist

¹⁷ Cited in Guha (2008). The Swatantra Party had the backing of many prominent industrialists including J.R.D. Tata. However, others such as GD Birla who was historically close to the Congress Party sought to stake out a more intermediate position.

policy paradigm declined, regional tensions and secessionist threats emerged from revolutionary movements, parties and ethno-linguistic groups opposing the political hegemony of a Congress Party that had ruled India relatively unchallenged since independence. Political fragmentation forced the devolution of power from the center in New Delhi to state capitals and legislatures and in the most extreme cases these agitations were accommodated by the creation of entirely new states. While two new states were also created under the stability of Nehru's rule, the total number of states only increased from 14 to 16 between 1956 and 1966. However, in the next decade through 1976 another six states were carved out of existing political units, representing a 37% increase during Indira Gandhi's tenure. In other cases popular discontent with the deteriorating economic climate turned to political violence as Marxist and Naxalite movements successfully organized mass struggles "that fused appeals to regional, linguistic, and tribal aspirations with promises of ending economic exploitation" (Frankel, 1978:389).¹⁸ This created an internal political crisis as the Congress recognized that "The party's old ruling formula – a mantle of inclusive nationalism and long chains of patronage fed by statism – was increasingly incapable of generating electoral majorities" (Kohli, 2004:270).¹⁹

There is no understating the fact that India was in the midst of a tumultuous period. There was consensus in international opinion that India's unlikely democratic experiment was set to fail. An American journalist sent to tour the country in late 1966 reported being struck by 'the bizarre range of India's seething problems of religious fanaticism, language barriers [and] regional feuds' which led him to predict that 'the breakdown of law and order will be so complete that the Army will take power, as happened in neighboring Pakistan and Burma'.²⁰ The chaotic atmosphere was punctuated by sporadic

¹⁸ The Naxalites emerged from a split between Marxist-Leninist and Maoist branches of the Communist Part of India. This period is the root of today's Naxalite movement which current Prime Minister Manmohan Singh stated in 2006 constitutes "The single biggest internal security challenge ever faced by our country" is also organized around the legitimacy of the Indian state to deliver development in Naxalite regions and the exploitation of mining resources by foreign firms. We will return to the role of the Naxalites briefly in the next chapter.

¹⁹ this in turn fed internal divisions, between the Syndicate and Desai on one hand, and between the older guard and young turks on the other.

²⁰ Cited in Guha, 2008.

episodes of political, communal and religious violence across the country that saw thousands being displaced or killed. While the otherwise patronizing American journalist cited above might be forgiven for being overwhelmed by the sheer scale and intensity of India, as many visitors to the country are, even the *London Times*' veteran India hand Neville Maxwell penned a series of articles entitled 'India's Disintegrating Democracy' reporting that 'famine is threatening, the administration is strained and universally believed to be corrupt, the government and the governing party have lost public confidence and belief in themselves as well'.²¹

The contrast with the Nehruvian period was striking. Rising ethno-linguistic and religious tensions, food shortages, inflation, and explosive population growth were creating an increasingly combustible mix. The political situation reached crisis proportions raising fundamental questions of socio-economic transformation and the *means* of reforms that had not been openly debated since the contestation between Gandhian and Nehruvian systems of thought during the Independence struggle. The political and economic imperatives were such that something had to be done. The major question was the direction of change: liberal reforms advocated by the conservative factions in the Congress or socialist transformation pushed by younger radicals who impatient with the party's failure to deliver more broadly inclusive development outcomes.

This was a moment of intense uncertainty.²² The direction the Congress would take rested largely with Indira Gandhi but the path she might choose was completely unclear. Chapter Five detailed how her father's views were carefully developed through years of reading, traveling and deep introspection as he grappled with the challenges that colonial India faced, and were widely known through his extensive speeches and writing through which he contested both colonial liberalism and 'traditional' Gandhianism and worked to

²¹ Ibid.

²² Yet despite growing recognition of the failures of the policy approach that had been pursued since independence and awareness of growing disillusionment with Nehruvian scientific socialism, these challenges did not automatically produce growing preferences for liberal reforms whether through a rational Bayesian search for alternatives or through proposals channeled through epistemic communities. These oft-positied mechanisms did not trigger preference change despite observation of strong economic growth through liberal economic policies in Latin America as well as the availability of liberal economic ideas presented by rising star Indian economists such as Jagdish Bhagwati.

convince the people of India of his beliefs. By contrast, Indira Gandhi's views on economic and geopolitical issues as fundamental as her belief in a market vs. planned economy or her position on the cold war were largely unknown (Guha, 2008).²³ However, Mrs. Gandhi proved to be a savvy political actor and far less pliable than her senior colleagues had hoped. Upon consultation with her inner circle of advisors led by the formidable Haksar -- all of whom considered themselves true believers in socialism, or at least India's unique Nehruvian statist brand -- Mrs. Gandhi cleverly transformed the potential crisis of legitimacy that threatened her early undoing into her biggest asset. As Frankel (1978:392) argues:

Notwithstanding the flood of political abuse pouring in on the Prime Minister in the wake of devaluation, she still enjoyed one crucial advantage in tapping **the deep public sentiment** that had been revealed **against dictation or the appearance of any dictation from the West** on questions of national policy. Mrs. Gandhi, after all, was the daughter of Nehru -- India's architect of nonalignment. **Her opponents in the Syndicate were, by contrast, publicly identified with pro-American sentiments.** Desai, a fierce antagonist of communism and the Soviet Union, was by default associated with a personal preference for the West [and Syndicate leader] S.K. Patil, long outspoken in his admiration for the capitalist system, made no secret of his sympathies for the United States.

Indira Gandhi wrapped herself tightly in the mantle of Nehruvian anti-imperialism and blasted the US for its aggressions in South-East Asia. While Shastri tentatively experimented with liberal economic policies during his brief stint in office, these did little to arrest India's economic decline while seeming to widen existing economic inequalities, exacerbate longstanding social, communal and religious tensions and fuel political fragmentation. This point that was not lost on Mrs. Gandhi who wrote to a friend saying the devaluation was “ ‘a most difficult and painful decision’ taken only ‘when various other palliatives which had been tried for the last two years [of Shastri's administration] did not produce satisfactory results’ ” (Guha, 2008).²⁴ This recognition of lessons learned from earlier experiments in the face of the failures of Nehruvian scientific socialism is consistent with the theories of social learning detailed in Chapter Two and outlined in the introduction to this chapter. However, while these approaches suggest that actors would

²³ Even to this day historians lament the absence of archival material through diaries, personal memos, letters or notes that might give insight to Indira Gandhi thoughts. Not only did she write little beyond small notes in the margins of memos, archival access to her personal papers in India remains closed (Guha, 2008).

²⁴ Chibber (2003) also suggests that the short liberal experiment didn't yield much gain, plus had clear political backlash.

turn to ideas from epistemic communities or predict a Bayesian search for alternatives, the Indian experience shows how strategic political actors devise new courses of action by creating novel combinations of rationalized causal ideas and salient cultural symbols that are imbued with deep social meaning (Douglas, 1986; Swidler, 1986; Sewell, 1992).

Though Mrs. Gandhi tapped into powerful Nehruvian cultural symbols of anti-imperialism she did not unconsciously follow a pre-existing cultural script. She revealed her political ingenuity by assessing the domestic socio-political and economic climate and making *garibi hatao* (poverty alleviation) her ruling slogan.²⁵ Mrs. Gandhi allied with the younger party radicals who considered themselves genuine socialists (as distinct from the elite statist ‘socialism’ that Nehru pursued) and she simultaneously labeled the old entrenched Congress elite as ideological reactionaries, enemies of the poor and allies of the West. Her justifiable concerns about the strength of her political position within the party led her to build her own base of support by appealing to the left and re-crafting her administration through increasingly populist and anti-capitalist symbols and rhetoric. Her speeches to parliament began to express ‘concern for all the minorities of India’ and called for ‘a new deal for the downtrodden’ while blasting “‘businessmen and industrialists’ who had the nerve to talk of worker indiscipline while continuing to ‘make big profits and draw fat salaries’” (Guha, 2008).

Mrs. Gandhi’s crucial innovation was to retain the statist orientation of scientific socialism while jettisoning the elitist elements that drove development from above rather than below. This approach was at odds with the Congress right wing,²⁶ the US government and World Bank, as well as the policy direction of successful peer countries like Brazil that were averaging 6% growth through FDI-fuelled industrialization. However, it successfully captured the deep historically rooted social meaning of anti-imperialism as well as the marginal role that scientific socialism assigned to private

²⁵ She and her advisors would doubtless have been assisted by various forms of political intelligence, such as information from a survey conducted at the time by India’s leading pollster EPW da Costa indicating that Congress’ waning support was due to its perceived lack of charisma and was concentrated amongst the previously loyal vote bank of minorities, youth and the less educated. This was precisely the group that Mrs. Gandhi aimed for (Guha, 2008).

²⁶ The divisions within the Congress ultimate led to a split in the party. See Frankel (2004) for details.

capital, both foreign and domestic, in the development process.²⁷ It is important to stress that while many of the cultural artifacts that were deployed, such as anti-imperialism and the rapaciousness of large Indian capitalists, were deeply rooted in Indian social memory, this did not reflect the application of a pre-existing template or cultural script; it was a creative display of cultural agency through which socially salient and meaningful elements were selectively recombined to address a specific political challenge (Sewell, 1992; Swidler, 1986; DiMaggio, 1988).

This was a highly strategic move. As Chapter Four argued, private capital occupied a historically complex position in the Indian social imagination and Chapter Five demonstrated the centrality of contrasting depictions of private capital in the contestation between Gandhian and Nehruvian cultural schemas. While Gandhianism retained an important role for Indian capitalists as ‘trustees of the nation’s wealth’, Nehruvian scientific socialism resonated with many as a compelling articulation of the deeply held suspicion of private capital in Indian society. This sentiment stemmed from centuries-old historical memory of abuse at the hands of wealth and powerful landlords, traders and moneylenders that made many Indians ambivalent if not hostile towards domestic capitalists who, as Chapter Four showed, emerged not from artisanal classes but precisely from these abhorred trading and moneylending groups. Even among the high status upper class and caste communities that did not face the power imbalances under which their lower caste and class compatriots suffered, trading and moneylending activities were seen as sullied and crude at best. The importance of the social background of the strategic actors who create dominant cultural schemas is also important. It’s likely no coincidence that Nehru grew up in an elite Kashmiri Pandit community, as of course did Indira Gandhi as well as Haksar and her other leading Kashmiri Brahmin advisers; Mohandas Gandhi, by contrast, was raised in a Gujarati *bania* (trader) community.²⁸ Thus agency and creativity were central in schema construction in this period, just as argued in

²⁷ Unlike South Korea, Nehruvian scientific socialism in India sought to tame rather than encourage the private sector. “State intervention had a decidedly regulatory cast: Instead of asking business what it could do and how the state could help, the state itemized what private business could not do and then raised numerous barriers to what it could do” (Kohli, 2004:267). See also Frankel (2004) and Rudolph and Rudolph (1987).

²⁸ Further, there was a counter-narrative around capitalism and communalism, that would be later be deployed by Indira Gandhi.

Chapters Three, Four and Five with the creation of 'drain theory' by the late 19th century nationalists, the resistance by Indian capitalists to colonial attempts to cast their economic practices as self-serving, backward and anti-modern, as well as in the construction of Nehruvian and Gandhian schemas that fuelled the independence movement. In each of these cases, strategic actors demonstrated significant agency by combining different socially salient cultural artifacts in the development and deployment of new cultural schemas that aimed to shape their institutional environment. These deeply embedded social meanings of private capital are essential for understanding the cultural schemas that shaped FDI preferences during this period and especially during the liberalization phase analyzed in the next chapter as strategic political and economic actors utilized these highly charged cultural tropes as resources in FDI policy debates.²⁹

The Policy Implications of the Populist Socialist Turn

Indira Gandhi's strategy was politically successful but it came at a cost. Though she "provided the winning strategy that revived Congress' sagging fortunes," her populism would further India's socio-political fragmentation "with significant developmental consequences" (Kohli, 2004:270).³⁰ These consequences became clear over the course of the decade that she remained in power as Mrs. Gandhi successfully sought legitimacy by stretching the Nehruvian scientific socialism in a populist and anti-capitalist direction.

Indira Gandhi's populist socialism was not a mere rhetorical shift; it was soon reflected in a broader policy agenda that significantly altered the structure of the Indian political economy. Following Hall (1993:279), this new agenda was akin to 'third order' policy change as it went beyond first and second order changes in "policy settings and instruments" seen in 'normal policymaking' to reflect a more "disjunctive" process

²⁹ As Chapter Two argued, the argument that actors use elements of cultural schemas as resources is closely akin to Swidler's (1986) formulation of culture as a toolkit of repertoires that are available to actors. The relationship between my argument and Swidler's (1986) is elaborated further in the next chapter where these cultural schemas become more contested.

³⁰ One important outcome was that in order to consolidate her position she made political appointments in bureaucracy that diminished the professionalism and insulation from society that had long characterized the meritocratic Indian Administrative Service. This loss of professionalism through the erosion of merit as criteria for professional advancement relative and increasing value of links with politicians marked the beginning of extensive corruption that the Indian bureaucracy, especially the lower level, has become infamous for.

“marked by radical changes in the overarching terms of policy discourse. It was an attempt to shift to a new policy paradigm. In particular, the anti-imperialist position had an immediate effect on government preferences and policy towards foreign capital: Minister of Petroleum and Chemicals Asoka Mehta recalled that his proposals for joint ventures between foreign and Indian firms that he considered mutually beneficial were “shot down one by one” in cabinet meetings at Mrs. Gandhi’s behest (Frankel, 1978:393). The legitimacy of collaborations between foreign and domestic big business was being directly challenged. The institutionalization of this position was supported by the findings of two major government commission reports that had a powerful effect on Mrs. Gandhi’s policy approach. The R.K. Hazari-led commission was convened after the 1966 balance of payments crisis and its recommendations ran directly counter to the liberal prescriptions of the World Bank and the US government by recommending *increased* state involvement in the economy as a means of addressing perceived policy problems and failings. The first Hazari report issued in 1967 called for greater industrial planning and state guidance in government-determined priority areas while the second, released in 1969, focused on the massive concentration of industry amongst a small number of private Indian business groups (Hazari 1967, 1969; Mukherji, 2012).³¹

The Hazari reports led directly to three major policy initiatives.³² All three related to the monopoly power of private capital, which was a longstanding issue under Nehru albeit one that the government said much but did little about. Crucially, all three aimed to *delegitimize* large private domestic and foreign capital as the vehicles through which development should be pursued.

The first policy initiative was increasing state ownership of the banking sector, which led to a wave of bank nationalizations beginning in 1969. This unnerved big Indian capitalists and foreign investors but supported small and medium-sized entrepreneurs as state control of the banks led to increased provision of low cost loans to the small-scale

³¹ The Birla group was particularly identified as having taken advantage of the licensing system.

³² [See Dhar for work of other government commissions that were convened at the time.]

sector.³³ This was a major demand of the young socialist radicals in the party that allowed the Gandhi administration to ‘democratize’ lending thus adding immensely to Mrs. Gandhi’s populist appeal (Kohli, 2004).³⁴

This was not the only rationale. It also served to ‘curtail the proclivities of businessmen’ who engaged in speculative ‘traditional’ moneylending practices in the informal rural financial sector rather investing in ‘legitimate’ areas of modern capitalist industrial development (Tyabji, 2010:5). This was a major translation of culturalist discourse and beliefs into state policymaking practice that was deemed crucial by state actors not merely because of the abuses that rural poor faced at the hand of usurious moneylenders, but also because of the drain on industrial capital that resulted as trading and moneylending groups increasingly gained control of industrial concerns in the cities as British capital fled in the post-independence era. The state held that many of these businessmen ‘of dubious social origin’ (almost invariably seen as arising from the Marwari trading community, as discussed in Chapter Four) utilized the diversified business group organizational form to raise finance through the stock markets, use the cash to buy manufacturing units and strip them of productive industrial assets in order to take advantage of the higher rates of return that were available through rural moneylending activities. Capital accumulated in the industrial sector was thus transformed into rural debts (Tyabji, 2010:5). This de-industrializing drain on industrial

³³ Nationalization addressed the clear shortage of capital in rural India, reflected amongst other things in the high lending rates that prevailed and the dominance of ‘traditional’ informal moneylenders and moneylending practices. It also gave Mrs. Gandhi and the Indian treasury access to the savings of the Indian population, and nationalized banks duly transformed traditionally high household savings rates into domestic national debt. This source of finance facilitated much of Mrs. Gandhi’s populist spending. Interestingly, as domestic sources of liquidity eventually dried up in the 1980s the state increasingly turned outside to foreign sources of debt. However, this happened a decade later than most developing countries, most notably Latin American states, allowing India to avoid the ravages of the 1980s debt crisis. Nevertheless, a sovereign debt crisis ensued in the late 1980s which promoted the final turn towards liberalization (Kapadia, 2009).

³⁴ This practice is related to what financial economists have termed ‘tunneling’ and the concerns of Indian technocrats are reflected in the normative underpinnings of this contemporary literature (cf. Khanna and Yafeh, 2007; Bertrand et al, 2002). See Tyabji (2010:5) for further discussion of how these practices were viewed by Indian technocratic leadership and Chapter Four of Birla (2008) for further background on the cultural and discursive politics of the speculative and trading origins of Indian capital. That is, the extent to which these illegitimate behaviors were tied to business actors drawn from specific trading communities, particularly the Marwaris. This underpinned the development and deployment of powerful cultural tropes that played a major role in shaping views toward private Indian capital relative to foreign capital during liberalization in the 1990s.

capital was anathema to nationalist goals of industrial development and was a significant contributor to the dim view that Nehru and his colleagues took towards many Indian ‘capitalists’ who failed to behave like ‘true industrialists by investing their wealth in economic activities that would further industrial development and wider growth, transformation and modernization of the Indian economy and society (cf. Tyabji, 2010; Birla, 2008). This distinction between illegitimate speculators and moneylenders and ‘true’ capitalist-industrialists hearkens back to the late colonial construction of ‘Indian Economic Man’ analyzed in Chapter Four, and would once again become crucial in the politics of liberalization in the post-1991 period.

The second major policy change was the passage of the Monopoly and Restrictive Trade Practices (MRTP) Act in 1969. The MRTP reflected the recognition that, even though Nehruvianism explicitly favored state ownership of industry and aimed to tightly control the private sector through the licensing system, industry had nevertheless become concentrated in the hands of a small number of major business houses. The Hazari Report revealed how these business houses managed to coopt the licensing process and acquire industrial licenses in a wide variety of industries, including ‘pre-emptive’ licenses in areas that the group had little intention of entering but wanted to preclude rival groups, Birla being the most egregious example (Hazari, 1967). While these economic practices were tolerated under scientific socialism given the focus on large-scale industry and the agnosticism of some scientific socialists towards private capital that was revealed in Chapter Five, they were anathema under the new populist socialist approach. The MRTP placed major curbs on the expansion of big business and was coupled with numerous informal blockages and bureaucratic harassment of major Indian business houses.³⁵ The

³⁵ For example, despite J.R.D. Tata’s personal relationship with Indira Gandhi and his continued provision of campaign contributions to the Congress Party, none of his group companies receive approvals for expansion in the 1970s, including desperately needed modernization of the TISCO steel factory and expansion of the production capacity of commercial vehicle assembler TELCO from 36,000 to 56,000 trucks per annum. Similarly, the offices of Rahul Bajaj, holder of the license that granted Bajaj Auto a virtual monopoly in the lucrative two-wheeler sector as the scooters the firm produced with technology from the leading Italian firm Piaggio enjoyed a ten-year waiting list, was repeatedly raided by the tax authorities. This reflects the complexity of the relationship between Indira Gandhi and big Indian capital at this time.

role of private domestic capital as a preferred vehicle for development was thus further delegitimized by populist socialism.

The third major policy development was the imposition of the Foreign Exchange Regulation Act (FERA) in 1973, the most dramatic effects of which are detailed in the next section.³⁶ FERA was the single most important development in the regulation of foreign capital since independence. The rationalized causal economic logic of FERA emerged from the MRTP and more broadly from the Indira Gandhi administration's populist reorientation of Nehruvian scientific socialism. Proponents argued that dividend repatriation by multinational firms drained India's foreign exchange resources and MNCs were not adequately contributing to technology transfer. The combination of these fiscal and technological ideas delegitimized MNC participation in the Indian national development project. This position fit with the deeply held beliefs about foreign firms as a 'drain' on the Indian economy that have been stressed throughout this dissertation. FERA marked the peak of India's restrictive approach towards foreign capital and, as empirically illustrated in the previous chapter, the law led to a dramatic decrease in MNC market share across a range of industries.

Finally, these economic policy changes coupled with political fragmentation from the weakening scientific socialist policy paradigm contributed to the emergence of powerful new economic players that altered the structure of the Indian political economy. India's land reforms in 1950s ended the *zamindari* landlord system and, coupled with the Green Revolution in the 1960s, created wealthy new groups of what Rudolph and Rudolph (1987) termed 'bullock' capitalists, particularly in the wheat and rice growing regions of northern and southern India, respectively (see also Das Gupta, 2007; Frankel, 2005). At the same time, the socio-political tensions that prompted changes in India's political structure by devolving political power to the states facilitated the creation and disbursement of new economic rents. State-level politicians directed these rents towards favored economic actors in a process that supported the rise of new medium sized

³⁶ FERA was preceded by the creation of a Foreign Investment Board in 1968/9. The Board would become a crucial site of FDI regulation as India moved towards liberalization of foreign investment in the late 1980s, 1990s and 2000s.

regional business groups. This dynamic gained momentum with the policy changes from the Hazari Report that curbed the oligopolistic tendencies of the largest business houses through the MRTP, restricted ownership and control of Indian enterprises by foreign capital through FERA, and increased access to finance through the recently nationalized banks.

Thus fractures in political system coupled with economic policy changes created opportunities for new economic actors with the potential to challenge established capitalists whose dominance pre-dated independence (Das Gupta, 2007). Even more importantly, by challenging the 'old' business groups these new groups were accorded a semblance of legitimacy as underdog challengers seeking to dethrone old groups that were believed to be monopolistic beneficiaries of protection during the Nehruvian period. This was especially evident for new groups in the engineering related activities that were seen as supporting India's industrial development goals more so than those engaged in wholesale or retail trade. These beliefs about the legitimacy of these actors were widely held despite the origins of many of these groups in similar rent-seeking behaviors as their older counterparts. The outcomes of this dynamic would play an important role in intra-capitalist contestation and the politics of reform as liberalization accelerated in the 1990s and 2000s.³⁷

These categories of capitalist legitimacy that shaped these three major policy initiatives are illustrated in the table below:

³⁷ Further, while many of these new groups emerged from merchant-trading and money-lending activities like the older groups described in Chapter Four, this period also saw the founding patriarchs send their sons overseas for university to prepare them to return and join the company. This would be a feature of the new medium sized groups that grew in this period to become major players such as Bajaj, Eicher, Mahindra and Mahindra and later Bharat Forge in the automobile industry and Rambaxy, Wockhardt and Dr Reddy's Lab in pharmaceuticals. This would have implications for changing views towards FDI as these overseas educated actors eventually assumed control of these important firms.

Cognitive & Cultural Categories of Capitalist Legitimacy in the 1st Indira Gandhi Period (1964-1977)

<p>Illegitimate Indian economic actors <i>Traditional: Large ‘monopolistic’ business groups that acquire ‘pre-emptive licenses’; economic actors with ‘proclivities’ for asset stripping and investing in speculative activities; “businessmen and industrialists’ who had the nerve to talk of worker indiscipline while continuing to ‘make big profits and draw fat salaries’”.</i></p>	<p>Legitimate Indian economic actors <i>Modern: Emerging medium sized regional groups, especially those in engineering-related industries; economic actors that invested in industrial development.</i></p>
<p>Illegitimate foreign economic actors <i>Traditional: ‘neo-imperial’ MNCs that export profits and refuse to share technology.</i></p>	<p>Legitimate foreign economic actors <i>Modern: MNCs willing to dilute to 40%, take on an Indian partner, share technology, and retain and reinvest earnings in India.</i></p>

These developments took place amidst growing social, political and economic turmoil in the late 1960s and early 1970s, as India concluded a third war with Pakistan, faced yet another severe drought and was hit by the 1973 oil crisis. More importantly, these policy measures, which represented Indira Gandhi’s transformation of elite Nehruvian scientific socialism to a populist socialist policy paradigm, failed to generate the expected economic response as growth remained marginal throughout the period. Internal conflicts within the Congress between the Syndicate and Mrs. Gandhi led to a split of the party and snap elections in 1969, followed by another round of elections in 1971 where she was accused of committing massive electoral fraud. Indira Gandhi now found herself battling political opposition from the right and the left. These political challenges led to a growing authoritarianism that coupled with economic policy failures further delegitimized Indira Gandhi’s populist socialism.

The fears of international observers were partially realized when Indira Gandhi declared emergency rule on June 26, 1975. The momentous decision was a pre-emptive move while awaiting the judgment on her trial for electoral fraud though in interviews Mrs. Gandhi claimed that this extreme step was taken not to save herself but ‘to save the country from disruption and collapse’.³⁸ The highly repressive State of Emergency marked the nadir of Indian democracy. Thousands of opposition members were arrested

³⁸ Guha (2008).

and although the military remained in the barracks the period was rife with abuses, many of which were led by Mrs. Gandhi's son Sanjay. The most notorious were the numerous rural forced sterilization camps that epitomized the repressive face of the statist development drive. Altogether the 1970s remain by far the most tumultuous period of India's political history since the bloody sectarian pogroms that marked the partition of India and Pakistan.

III. Janata Party Rule:

The Revival of Gandhianism and Implications for FDI Preferences and Policy

Indira Gandhi called general elections in March 1977 as she sought a fresh mandate, but the Congress Party lost terribly to the Janata Party headed coalition, which eventually chose right-wing conservative ex-Congress Minister and colonial era freedom fighter Morarji Desai to be the next Prime Minister. The eighty-one year old Desai had been Nehru's most important political foe and had twice contested the Congress leadership after Nehru's death against both the Nehruvian turned quasi-reformist Lal Bahadur Shastri and later the left-populist Indira Gandhi. The Janata Party ran on the platform 'bread and freedom' and its triumph marked the first time in Indian history that the Congress Party was ousted from the Prime Minister's office. Their victory was so devastating that Indira Gandhi even lost her own parliamentary seat.

The Janata Party coalition's successful electoral campaign was organized against Indira Gandhi and the Emergency but had difficulties in articulating a 'positive' agenda through a cohesive system of meaning and thought with the legitimacy and appeal to replace Nehruvian or populist socialist paradigm. Instead the party and cabinet were "a veritable mish-mash of ideologies: 'some baiting Nehru, others praising him, some talking about the commanding heights of the public sector, and others brashly championing the Japanese and American models, some asserting the need for heavy industries, other[s] clamouring for a 'return to the villages'" (Guha, 2008; see also Kohli, 1987:201). The party was a heterogeneous mixture that reflected of widespread rejection of Mrs. Gandhi

and the authoritarian Emergency rather than a group with a coherent platform. The absence of a unifying cultural schema and a leader with the creativity, legitimacy and 'social skill' to develop and articulate a broadly compelling vision as Jawaharlal Nehru and Indira Gandhi had done before boded poorly for the party's long-term prospects.³⁹

There were however important developments in the areas of FDI and industrial development that highlight the utility of the cultural schema analytic relative to competing theoretical approaches in comparative political economy that downplay the role of social meaning. The emergence of the Janata Party and the Desai administration's policy approach reflected a revival of the pre-independence contestation between Gandhianism and Nehruvianism in the industrial policy arena that was analyzed in detail in Chapter Five.⁴⁰ The Desai administration rejected the statist scientific socialist rhetoric that had dominated post-independence Indian politics under the Congress Party

³⁹ Fligstein (2001) defines social skill as the ability to induce cooperation in others by providing motivating identities and cultural frames. He posits social skill as a mechanism that helps to bring agency into sociological formulations that made actors agents of structure with little capacity to affect the constitution of their social worlds. The concept and its analytic usage were heavily influenced by Giddens' (1984) ideas of 'skilled performances'.

⁴⁰ Gandhianism provided an encompassing umbrella that served to bring together groups that otherwise held disparate belief systems and faced contrasting material circumstances. Caste, class and communalism were important dividing lines that came to the fore in this period and would become central to the dynamics of the Indian political economy in the liberalization period. Kohli (1987) provides a detailed analysis of the rise of some of these new caste-based political groups. His interview with Jat leader Charan Singh (Jat roughly translates as 'sons of the soil' or less charitably 'country hick') who headed the BLD is particularly revealing. Kohli argues that "Charan Singh's continuing and lasting animosity towards the Nehru family captures the ideological and cultural spirit which had given rise to [anti-Congress parties] like the BLD. [According to Singh:] 'Nehruji would bring forward all the western educated Brahmins. He never took me seriously because I wore a *dhoti* [loincloth]. I was a Jat and a country fool [Kohli's translation from Hindi] to him. Shrimati [Indira Gandhi] is not that different. Forget the villages, she does not even know what's going on in New Delhi. India lives in villages, not in New Delhi.'" Charan Singh thus epitomized the efforts of the 'backward cultivating castes' who sought to counter urban bias through anti-urban and anti-industrial policies. A second and crucial group was the Hindu nationalists such as the Jan Sangh who became central players in Indian politics in this period. Unlike the 'backward caste' groups like the Jats who's orientation was around caste-based discrimination, the Jan Sangh had its roots in militant Hinduism that rose in response to the perceived 'withering of greater India, and therefore with the leaders who presided over this process - Gandhi and Nehru" (Kohli, 1987:200-1). It is useful to recall that Gandhi was assassinated by a Hindu militant who held him responsible for partition. This group's economic interests favored free enterprise and found support in urban and rural propertied classes. In sum, an approach to understanding preferences as based on cultural schemas does not entail delinking entirely from pluralist class analysis. Of course, the balance of class interests matters tremendously in politics; this argument aims to show where those interests and preferences come from and how they ultimately shape political, economic and market outcomes.

by reviving and deploying Gandhian language that had been subsumed under Nehruvianism since the early 1940s.⁴¹

This was another illustration of the analytic importance of strategic action. Just as Indira Gandhi retained certain elements of Nehruvian scientific socialism and coupled them with her own brand of populism, much as Swidler (1986) argues that actors use cultural ‘repertoires’ or ‘toolkits’ as resources for ‘strategies of action’, so too did the Janata Party attempt to use selected components of Gandhianism as resources in articulating their own policy approach. The Janata Party’s Statement on Economic Policy cited the “need to develop an alternative both to capitalism and communism...[by] treading the path of Gandhian socialism based on political and economic decentralization.”⁴² The Statement expressed opposition to “any economic system which allows individuals or groups freedom to exploit other,” a clear reference to the exploitative power of big private capital, but also asserted that “at the same time it is not in favour of the state possessing unlimited power which will destroy all initiative and freedom”, thus rejecting the statism that had been a central pillar of three decades of Congress Party rule. The Janata Party promised to “do away with the dual society as development would be oriented to the jobless and the homeless.” This “dual society” -- clearly a reference to the Nehruvian focus on large-scale technology-intensive industry which had little impact on the lives of the masses of poor -- would be accomplished in true Gandhian fashion by focusing public sector resources on rural development through labor-intensive small-scale cottage industries.⁴³

These Janata Party preferences against technology intensive large-scale industry had major implications for foreign capital, even with the existence of FERA. The 1977

⁴¹ From a theoretical standpoint it is also useful to note that, despite the recognition of economic success in countries like South Korea and Brazil that were growing at near 10% per year, these Indian actors did not attempt to adopt the trade and industrial policies – including the approach to FDI – that had made those countries successful. This would be the prediction of the rational Bayesian approach, which will be discussed in greater detail in the next section.

⁴² *Statement on Economic Policy*, adopted by the Working Committee of the Janata Party on December 14, 1977. Cited in Frankel (1978:575).

⁴³ However, it was not a cohesive articulation of Gandhianism, which ultimately had negative implications for its salience, power and durability, and especially the ability to reach consensus on economic strategy (Kohli, 1987:201).

Industrial Policy Statement renounced its 1956 predecessor that was the embodiment of scientific socialism and the hallmark of Nehru's policy agenda. The Janata Party's statement criticized previous Congress administrations' focus on large firms and industries that the Nehruvian policy paradigm placed at the 'commanding heights' of the economy. Instead, it followed the precepts of Gandhianism by focusing on the agricultural sector and expanded the list of industries reserved for small-scale firms from 180 to over 500 while promising further support for cottage, household and village industries.⁴⁴ This revival of Gandhianism strategically inverted the modern-anti-modern dichotomy that was discussed in Chapter Five. A 'return to the villages' was not seen as backward, as scientific socialists had argued, but rather as (finally) realizing a 'truly Indian' modernity.

The preferences against large firms on one hand and foreign firms on the other were related: both were understood in the context of the exploitative power of monopoly capital that the previous section argued was a powerful trope in the Indian social imagination. The disparaging references to large-scale industry as monuments to 'irrelevant foreign technology' followed directly on the arguments that animated Mohandas Gandhi and his economic avatar J.C. Kumarappa in their debates with Nehruvian scientific socialists in the 1930s and 1940s that were described in Chapter Five. Gandhianism prescribed an even more restricted role for foreign capital in industrial policy as the logic of Gandhian development was predicated on small-scale cottage industry employing traditional knowledge and production techniques rather than large-scale industries requiring advanced (i.e. foreign) technologies. Further, Gandhi's attempts to rationalize the position of large capitalists by labeling them with Andrew Carnegie's terminology as 'trustees' of the nation's wealth did not encompass foreign firms: those capitalists were tied to societies outside of India.⁴⁵ In fact, while the previous chapter

⁴⁴ Government of India, *Statement of Industrial Policy*, December 23, 1977.

⁴⁵ This is a crucial point. As Chapter Five argued, while Gandhianism placed small-scale village industry at the center of his utopic vision of a 'traditional' Indian modernity, Gandhi provided a role for all Indian capital. Nehru meanwhile sought to legitimize role of the state in the economy as the main vehicle for realizing his own vision of Indian modernity by using large-scale enterprise to direct the economy from the 'commanding heights'. Nehru provided some space for large private capital in secondary industries, and recognized and legitimized a role for foreign capital as providers of capital in order to develop 'modern'

showed that Nehru recognized the need for foreign technology and was generally supportive of the Tata-Birla mission to Europe and the US to seek industrial collaborations, Gandhi reacted strongly when informed of the news.⁴⁶

The new statement followed on this logic in providing a detailed position on the role of foreign technology:

Future development of industries in India must be based on indigenous technology as far as possible...In order to promote technological self-reliance, the Government recognises the necessity for continued inflow of technology in sophisticated and high priority areas where Indian skills and technology are not adequately developed. In such areas, the Government's preference would be for **outright purchase of the best available technology** and then adapting such technology to the country's needs.

Crucially, it indicated the Janata Party's preferences for greater restrictions on foreign firm entry, with the regulatory approach to foreign capital following directly from the new government's position towards foreign technology:

The Government would also like to clarify its policy regarding participation of foreign investment and foreign companies in India's industrial development. So far as existing foreign companies are concerned **the provisions of the Foreign Exchange Regulation Act would be strictly enforced.** [Section 24]

The Janata Party's commitment to these espoused FDI preferences of limiting the participation of foreign capital in the economy by strictly upholding FERA was soon demonstrated beyond doubt. Although a significant number of MNCs remained in India and complied with FERA by diluting their shareholding -- albeit in many cases retaining managerial control through clever board structures -- FERA led to the voluntary withdrawal of many others. However, a small number of firms were explicitly targeted. These included Coca-Cola and IBM, which became the most famous MNCs to get 'kicked out' of India, not least because of their iconic status.

The symbolism was crucial. Coke and IBM were at the vanguard of American multinational corporate expansion of the late post-war period, much like Ford and GM in the early 1950s. Coke was the embodiment of 'Americana' and the global consumerism that exploded in the post-war 'golden age' of capitalism. But while Coke represented the

industry. However, given the reliance on 'traditional' industry in Gandhianism there was no space for foreign capital in the Gandhian system of meaning and thought.

⁴⁶ I owe this insight to a conversation with economic historian Nasir Tyabji.

nostalgia of 1960s American popular culture, IBM symbolized the future of American technological superiority that would cement the hegemony of US multinational firms. IBM was the acknowledged leader of the emerging high-technology computer age that began with the space program and was steadily revolutionizing all areas of social and economic life.⁴⁷ It initially appeared that IBM might avoid regulatory pressure since in designing FERA Indira Gandhi's administration allowed exemptions for firms that operated in "high-priority industries" employing "sophisticated technologies".⁴⁸ These firms also had to dilute their equity holdings, but were allowed to retain up to 74% equity shares (Encarnation, 1989:68).⁴⁹ Nevertheless, just like auto firms seeking to enter India in the 1940s and 1950s, IBM was pressured to take on a domestic partner; however, IBM opted to exit the country rather than risk sharing its technology with India's growing electronics firms, even with the elevated 74% cap posing little threat to managerial control. Coca-Cola, however, was initially granted a reprieve from any equity dilution based on the firm's argument that it could not reveal its 'secret ingredient'. This exemption wasn't to last long.⁵⁰

An examination of Coca-Cola's expulsion from India by the Janata Party illustrates the analytic utility of cultural schemas as rationalized systems of meaning and thought that shape actors' preferences, and the manner in which actors ascribe foreign capital to categories of legitimacy. Industry Minister George Fernandes, a firebrand trade unionist, understood Coke not objectively as an undifferentiated manufacturer of soft drinks but as a potent symbol of all of the problems that foreign capital presented. In an interview with the *Multinational Monitor*, Fernandes recalled that the motivation to oust Coke came in July 1977, shortly after the Janata Party took office:

⁴⁷ The effect on the Indian technological imagination during this period should not be underestimated, as this was the moment when the cadre of Indian engineers who went abroad to Europe and the United States, especially Silicon Valley, emerged. The roots of India's IT 'revolution' can be traced to this dynamic from the 1970s as seen in early entrepreneurship in the sector, first in hardware and later in software.

⁴⁸ This represents the importance of sophisticated technology in the Nehruvian developmentalist schema and the implications for FDI preferences. It also provided significant bureaucratic discretion in determining which multinational firms would be allowed to retain majority shareholding of their subsidiary in India and which would be forced to dilute their equity stakes.

⁴⁹ In fact, MNCs that agreed to export all of their output were allowed to retain 100% foreign ownership.

⁵⁰ Cf. Dhar.

The idea of getting Coke out struck me when I was the minister of communications, prior to being minister of industry. I was visiting a village in my constituency. It was summer and hot, and the first thing I did when I reached that particular village was to ask for a glass of water. Someone brought me a glass of water, but the district magistrate, who is the highest district government official, came and prevented me from taking the glass of water. He said, "No sir, this is not for you, you can't drink this water. We have Coke for you." I was very upset and angry. I said, "**Thirty years of freedom** and planning and we have Coke that has reached the villages, but we do not have drinking water that the villagers can consume." That is when my mind said something is wrong.⁵¹

Fernandes' interpretation of this episode is best understood in terms of the cultural schemas that constitute actors' policy preferences. These systems of meaning and thought posit rationalized causal relationships imbued with historically salient social meaning that deeply resonate with societal actors and shape their perceptions of foreign capital. Fernandes explanation of the final decision provides empirical support to this theoretical claim:

When I entered the Ministry of Industry shortly thereafter, one of the first things I focused on was the Foreign Exchange Regulation Act stipulation limiting foreign investors to 40 percent equity in domestic enterprises. I summoned the Coke people and told them to accept this stipulation. Their answer was that "our technology is so secret that we cannot share it." I said, "Listen, you have two options. One is to fold up and go, and the other is to **have an Indian partner and to tell him what your technology is**. It is not just having an Indian partner; tell him about your technology." There was supposed to be technology transfer in all joint ventures, unless the technology was one that we had no way of assimilating, or one that we needed access to for security reasons. There wasn't any reply from Coke. Since they wouldn't share the great secret of their technology, **the only option left was to get out**.

Fernandes' use of an array of salient cultural symbols is emblematic of the importance of these artifacts in shaping schemas and preferences. His reaction to Coke and invocation of FERA remained squarely within the developmentalist discourse of anti-imperialism and *swadeshi* nationalist self-reliance (Mazzarella, 2003). Fernandes' preferences towards FDI were shaped by his interpretation of nationalism and attendant conceptions of the role of foreign firms in supplying technology, in this case to provide potable water in India. He was outraged that after "thirty years of freedom" India was still dependent on foreign firms and technology rather than being self-reliant in as basic yet fundamental an area as the production of clean drinking water. The situation symbolized the problems they perceived both with the effects of foreign technology on Indian industry as well as the way the Nehruvian development model had neglected the rural poor. Fernandes further argued that Coke epitomized the macroeconomic problem posed by profit

⁵¹ Multinational Monitor, 1995, emphasis added.

remittances that FERA had been designed to solve, claiming that after twenty years in India Coke managed to repatriate a massive 250 million rupees on an initial investment of only 600,000 rupees (ibid).⁵² The antecedents of this view in late 19th century drain theory of Dadabhai Naoroji and Ramesh Chunder Dutt that informed both Nehru and Gandhi is clear.⁵³ It was powerful cultural schemas that provided the causal economic ideas that linked FDI to flows of finance, technology and industrial development outcomes and ascribed historically salient social meaning to foreign firms that shaped what Fernandes interpreted as a problem and motivated him to action.⁵⁴

These preferences towards foreign and domestic firms under the Janata Party are summarized in the table below:

Cognitive & Cultural Categories of Capitalist Legitimacy under the Janata Party (1977-1979)

<p>Illegitimate Indian economic actors <i>Traditional: Large-scale 'exploitative' and 'monopolistic' firms at the Nehruvian 'commanding heights' of the economy, and which are 'monuments to irrelevant foreign technology'</i></p>	<p>Legitimate Indian economic actors <i>Modern: Rural-based small-scale labor-intensive cottage industry firms and agricultural producers that accord with Gandhian ideals of a 'true Indian modernity'.</i></p>
<p>Illegitimate foreign economic actors <i>Traditional: 'neo-imperial' MNCs that export profits and refuse to share technology.</i> Exemplars: Coca-Cola and IBM</p>	<p>Legitimate foreign economic actors <i>Modern: MNCs willing to dilute to 40%, take on an Indian partner, share technology, and retain and reinvest earnings in India.</i> Exemplar: Hindustan Lever</p>

Finally, it is crucial to note the contingent implications for foreign capital and the array of options Fernandes faced from competing rationalized causal ideas. Rather than pushing

⁵² This points to the important of competing causal ideas that underpin cognitive and cultural schemas. Fernandes interpretation was based on an understanding of economic theory that saw FDI as a net drain on FDI through profit remittances, rather than the liberal economic conception of FDI as a contributor to industrialization and macroeconomic stability through foreign exchange provision and productive long-term investment. The indeterminacy between these positions in economic theory facilitates actors ability to use either as resources in schema construction depending on the social meaning that can be attached. This will become even more clear in the next chapter when we see direct contestation between cultural schemas at the societal level.

⁵³ In his writings, Gandhi recalled that he wept when he first read Dutt's account of how the British drained resources from India in his *Economic History of India*.

⁵⁴ Further, it highlighted the differences between the Nehruvian and Gandhian cultural schemas – the former posited causal relationships between foreign and local firms where the former transferred technology to the latter, facilitating the achievement of *swadeshi* self-reliance, which as we will recall from Chapter Five, Gandhi and other key actors infused with deep social-psychological and historical meaning.

Coke to *expand* production in order to provide clean safe water for India's hundreds of millions of rural poor who lacked access to this crucial resource – as the previous chapter suggested that the developmentalist schemas guiding the Brazilian government would likely have led them to do - Fernandes' response was to attempt to coerce Coca-Cola to share their technology and then expel the firm when it refused.⁵⁵ This has important theoretical implications. If preferences are determined by rational observation and deduction, we might expect Fernandes to have taken a different approach since peer countries like Brazil had soared ahead in all measures of economic growth, industrial development and social progress largely due to a reliance on foreign capital. The East Asian states of South Korea and Taiwan had also experienced rapid growth during the 1960s and 1970s with foreign firms playing key albeit restricted roles that facilitated technological learning amongst domestic firms while ensuring MNCs did not become dominant as they did in Brazil.⁵⁶ Instead, Fernandes' preferences towards toward foreign firms, were emblematic of the deeply held anti-imperialist cultural schemas that continued to shape India's unique approach to FDI.

IV. The Return of Indira Gandhi: Private Sector Oriented 'Aspirational Consumerism'

The previous section argued that the Janata Party led coalition was cobbled together from a heterogeneous mix of parties from different points of the political spectrum as Gandhians, socialists, free market liberals, Hindu nationalists, communists and

⁵⁵ Certainly this is what a rational Bayesian learning perspective might suggest. That is, policymakers would look around to see how other countries had addressed these types of technological problems, and certainly Brazil with its consistent high single digit growth based largely on open invitations to foreign firms (as well as accumulating significant levels of overseas debt) would have been a model to at least consider. Instead actors' preferences were shaped by deeply held cultural schemas, and this shaped their approach to addressing deep development problems, not a rational process of solution search.

⁵⁶ This lends valuable insight to the question of where preferences come from and how they change. While it is clear that lessons were taken from the failures of the Nehruvian approach, the particular approach that was adopted can't be explained by learning via Bayesian updating, since Brazil was growing at an average of 6% through FDI-fuelled industrialization and the successful role of FDI and exports in East Asia were also becoming apparent. Nevertheless Fernandes and Janata Party took a different approach that suggested that even if learned from failures of Nehruvian approach, were pursuing an approach that was informed by preferences shaped by Gandhian schema.

conservatives were momentarily united by their common hatred of Indira Gandhi. However, while they succeeded in defeating Mrs. Gandhi's Congress they failed to generate a cohesive policy discourse and system of thought under which to unite and motivate party activists and the wider Indian polity. The Janata Party policy approach never attained "third order change", was not deeply institutionalized in the policy making apparatus of the Indian state and thus failed to reach paradigmatic status (Hall, 1993). Instead, the Janata coalition was fraught with political infighting and its term in office was marked by the second oil crisis in 1978 and another major drought in 1979, both of which contributed to balance of payments challenges. The party ultimately lost the 1980 election to a resurgent Congress Party and Indira Gandhi returned to the Prime Minister's Office, albeit with a radically different approach.⁵⁷

In her first stint as Prime Minister from 1966-1977, Indira Gandhi stretched the Nehruvian scientific-socialist model of statist development in a populist, authoritarian and anti-capitalist direction but upon her return, a chastened yet politically savvy and ever pragmatic Mrs. Gandhi began reorienting her administration. State-led planning and the extensive industrial licensing regime that constituted India's approach to import substituting industrialization was considered a disappointment and authoritarian populism

⁵⁷ It is worth noting that policy changes can't be explained by external pressure or 'economic realities' even though India's latest macroeconomic challenges prompted the country to return to the IMF and to accept the largest loan the IMF had ever prepared. Chaudry et al, 2004; Mukherjee, 2012). However, Indian authorities were insistent that there be no conditionalities attached and that the Extended Fund Facility allow for India to continue to pursue its goals under the 7th Five Year Plan 1980-85 (Chaudry et al). This is important to consider given the policy diffusion literature which posits coercion as a mechanism through which ideas diffuse, with the IFIs as crucial players in this dynamic (cf. Dobbin, Simmons and Garrett (2007). Chaudhry et al argue that "In effect, Indian officials had pre-empted much of the Fund's conditionality by devising their own substantial macroeconomic adjustment programme in the Sixth Five-Year Plan and the government budget." Kapadia (2009:224) adds that the loan was engineered by an economic policy team comprised of Indian technocrats who had experience working at the IFIs. The team included: I.G. Patel, who was then Governor of the RBI was a former Executive Director for India at the IMF; R. Ventakaraman, Finance Minister; M. Narasimham, the Executive Director for India at the time; L.K. Jha, a conservative bureaucrat; Manmohan Singh, then a member of the Planning Commission; Bimal Jalan, economist and future IMF Executive Director, as well as future Governor of the RBI; Montek Singh Ahluwalia, an ex-World Bank economist then with the Ministry of Finance; Arjun Sengupta, an economist who would go on to direct the IMF's Independent Evaluation Office (Ibid). Finally, it is worth noting that while the IMF loan was large - \$6b over 3 years – it was sold by Mrs. Gandhi not as a loan requiring conditionality but as a 'line of credit' with easy terms. This was to preclude criticisms based on lessons learned from the 1966 devaluation. In fact the loan was described as based on 'homegrown conditionality' that was negotiated by a 'highly talented economic policy team' that took the initiative to begin 'informal discussions' with the IMF in 1979/80 when the signs of crisis became apparent (Kapadia, 2009:223).

had been delegitimized by the persistence of poverty and the terrible excesses of the Emergency.⁵⁸ This was yet another moment when we might expect to observe preference change, but again it did not occur through either mechanisms of learning through rational observation nor through wholesale adoption of ideas provided by epistemic networks of policy experts. Instead, Mrs. Gandhi attempted to create a new cultural schema by imbuing new causal economic ideas with historically salient cultural symbols that had widely understood social meaning. The rest of this section illustrates this point.

Indira Gandhi's return signaled a shift in industrial policy and tentative steps towards economic reform through a growth oriented partnership with Indian big business.⁵⁹ Though an important strand of the policy diffusion literature explains the adoption of liberal economic policies through coercion by the IFIs, this move was not externally enforced upon the Congress government. Mrs. Gandhi "herself shifted India's political economy around 1980 in the direction of a state and business alliance for economic growth" (Kohli, 2006:1255). These early reforms marked the first signs of a critical attitudinal shift on the part of the Indian state from espoused socialism to explicit support to private domestic capital (Rodrik and Subramanian, 2004; Kohli, 2006a,b).⁶⁰ This 'pro-business' shift represented a distinct break from the espoused socialist views of the post-war period -- both under Nehru's elite 'industrialization from the commanding heights' and Indira Gandhi's populist politics of *garibi hatao* -- and signaled the beginning of a

⁵⁸ Interpretation was failure despite some real success in developing a fairly broad industrial base and crucially, a domestic industry with real capabilities. This would be recognized as an success until much later in the reforms, in the 2000s and Indian domestic capital began to assert itself and represent the aspirations of the nation.

⁵⁹ There may have been signs of a change of direction from as early as the 1976 Budget cf Tyabji interview; Das Gupta (2007).

⁶⁰ Rodrik and Subramanian (2004) and Kohli (2006a,b) have argued that the Indian government followed a distinctly *pro-business* as opposed to *pro-market* mode of economic reform (also DeLong, 2003). This phased approach to liberalization is distinct from a "pro-market" mode (cf. Srinivasan, 2004; Srinivasan and Tendulkar, 2004; Panagariya, 2006) in that the former mainly benefits established incumbents (e.g. India's well-entrenched business houses) while the latter favors entrepreneurship and the rise of new domestic economic actors or sudden "big-bang" exposure to intense foreign competition. The orthodox *pro-market* idea being that reliance on the market will lead to an efficient allocation of resources thus promoting competitiveness, through realization of static comparative advantage in labor-intensive industrialization and ultimately economic growth (Kohli, 2006a). The proponents of this view argue that India's uptick in economic growth and productivity pre-date the early reforms taken in the 1980s as well as the more comprehensive post-1991 reforms. Not only did growth predate the initial reforms, did not accelerate even with the later reforms and further, as Rodrik and Subramanian (2004) show, the rate of TFP growth actually slowed post-1991.

change in the cultural schemas that would reshape actors' preferences towards foreign capital and generate a new policy paradigm. This shift was apparent immediately through numerous public statements and crucially, was recognized by major media outlets and societal actors. A *Times of India* editorial noted "A change of considerable significance is taking place in India....the emphasis has shifted from distributive justice to growth" and the *Economic and Political Weekly* also reported that Mrs. Gandhi made it clear in her meetings with industrialists that "what the government was most concerned about now was higher production".⁶¹

This explicit turn towards the private sector was completely unprecedented. While successive Indian governments had long privileged domestic capital over foreign firms, large-scale private capital was consistently marginalized relative to state-owned companies under Nehru and increasingly small and medium sized firms under Indira Gandhi and the Janata Party. Mrs. Gandhi's return thus heralded an entirely new approach.⁶² The pro-business approach explicitly favored domestic incumbents by gradually removing industrial licensing barriers that eased restrictions on firm-level expansion in existing as well as new areas of business activity. This process benefitted large business groups that were better positioned to take advantage of these internal regulatory changes than new domestic entrepreneurs or foreign firms, particularly as the former were accorded little policy support and the latter remained constrained by the 40% holding restrictions of FERA. However, the old pre-independence business houses were not the only beneficiaries; many of the newer medium-sized regional groups that emerged in the 1960s and benefitted from the three major policy changes outlined in the previous section of bank nationalizations, anti-monopoly rules under the MRTP and FERA, particularly those in engineering and consumer goods industries, were also in an ideal position to join the ranks of India's most powerful domestic companies.

⁶¹ Cited in Kohli (2006a:1255).

⁶² Chapters Four and Five discussed the legitimacy challenges that Indian private business faced throughout the pre-independence period (cf. Basu, 2003). This legitimacy issue also speaks to the merchant trader-'true' capitalist-industrialist distinction that I will examine further post-dissertation.

In sum these initial reforms amounted to a complete reversal of the previous strategy that was predicated on restricting the growth of private firms through extensive licensing.⁶³ The government also began removing price controls, liberalizing capacity restrictions, easing access to imported capital goods and providing corporate tax breaks while external trade barriers remained largely unchanged (Rodrik and Subramanian, 2004). Domestic capital was thereby allowed to expand the scope of their operations within India while being protected from foreign competition.

The 1980 Industrial Policy Statement:

Aspirational Consumerism and Global Competitiveness

The Congress administration issued a new Statement of Industrial Policy elaborating the government's renewed focus on economic growth, consumption and distribution that was now to be achieved by increasing the productivity of Indian big business. Two elements were crucial. First, the statement definitively re-asserted the central role of industrialization in achieving development and sought to legitimize the role of firms by clearly identifying its intended beneficiary in 'the 'common man.' This served a dual purpose. It created a new consumerism that fuelled aspirational desires amongst India's lower middle class, urban working class and rural poor who constituted the ostensible 'common man' while simultaneously assuaging real demand from the established urban middle class and the newly enriched 'bullock capitalist' groups in peri-urban and rural areas (Das Gupta, 2007:229; see also Bardhan, 1998).⁶⁴ Creating and encouraging aspirational consumerism would thus become the central driving force of liberalization, a dynamic that continues to this day.⁶⁵

Second, the Statement promoted the view that the post-independence struggles of Indian industry were due to constraints on international competitiveness, stressing the importance of technology and firm size for capturing of scale economies and improving industry and firm performance:

⁶³ The MRTP actually remained in place until the larger package of reforms in 1991.

⁶⁴ As indicated earlier, these bullock capitalists were empowered by the improvements in agricultural productivity from the Green Revolution.

⁶⁵ This view accord wellw ith research on culture and desire in market economies in economic sociology e.g. Zelizer (2012).

Industrialisation is a sine qua non of economic progress. Our Government is committed to rapid and balanced industrialisation of the country with a view to **benefiting the common man** in the shape of increasing availability of goods at fair prices, larger employment and higher per capita income. [4]...In a number of cases **Indian industry** has not been able to compete in markets abroad because the scale of output which is related to the level of domestic demand is too small to give them **the advantages of modern technology and economies of scale**. In cases where a larger production base would increase the competitiveness of Indian industry abroad. **Government will consider favourable the induction of advanced technology, and will permit creation of capacity large enough to make it competitive in world markets**, provided substantial exports are likely. The purpose of introducing such a policy would be not only to encourage exports but also to **enable industry** to produce better quality products at lower cost which will ultimately benefit the consumer in terms of price and quality. [24]⁶⁶

The statement clearly indicates the reversal in the role of private firms in Indian development justified by appeals to the symbols and promise of ‘modern’ and ‘advanced technology’ that would increase ‘the competitiveness of Indian industry abroad’. However, while the populist redistributive imperatives that dominated Indira Gandhi’s first stint in office were downplayed, they were not entirely jettisoned, reflecting the evolutionary nature of schema change. Instead the means of achieving these goals were reoriented and presented as being pursued through support of private business while the shift was accorded legitimacy by asserting the benefits to the ‘common man’. Thus rather than state-led development where the government doled patronage directly to the poor, the fruits of development would now be provided by private firms through market oriented consumerism.

As indicated in the introduction to this chapter an elaborated in Chapter Two, the recognition of earlier policy disappointments and de-legitimization of the Nehruvian and populist socialist policy paradigms created an opportunity for the adoption of a new approach (Berman, 2011). Hall (1993) argued that policy paradigms begin to lose legitimacy when the causal designations they posit fail to match observations. This failure to deliver on expectations makes actors more amenable to new ideas though a process akin to Heclo’s (1974) ‘puzzling’, which directs analytic attention to the potential mechanisms through which learning occurs and preferences change.⁶⁷ Social learning

⁶⁶ Government of India, *Statement of Industrial Policy*, July 23, 1980.

⁶⁷ Berman (2011) suggests that the rise and fall of ideas (i.e. preference change) is a two-stage process. First, existing ideas are questioned as perceived failures create demand for new ideas thus opening up space for new causal ideas. Second, new ideas begin to appear to take the place of the old one(s), fill the vacuum

theories from both rational choice and historical institutional traditions would suggest that political actors like Mrs. Gandhi and her advisers would consider the ‘facts’ that revealed what Hall (1993) referred to as ‘empirical anomalies’ between expected and actual policy results. As rational actors they would be expected to ‘learn’ from this experience and seek alternatives, whether through a ‘rational’ search process akin to hypothesis testing or a more ‘sociological’ mechanism of learning of new ideas through epistemic networks, and ultimately respond by altering their policy preferences.

It is certainly clear that Indian policymakers recognized the ‘empirical anomalies’ that arose in the 1960s and 1970s: Kohli (2006a:1255) points to the “accumulating evidence” that India’s economic growth throughout the 1970s had been fairly dismal” as well as “the important fact that the significance of capitalism [i.e. the market] in the Indian economy, both in the countryside and in the cities, had grown steadily. The more apparent this became to Indians, “the more *anachronistic* became claims of the state controlling ‘the commanding heights of the economy’, especially in the face of a poorly performing public sector.” By the time of her return the populist politics of *garibi hatao* “was running out of steam” as various anti-poverty programs had failed and the socialist experiment impaired economic growth; “...by contrast, putting the weight of the state behind private producers (notably larger landholders) had helped agricultural production, leading to the green revolution in the 1960s. The economic [as well as the political] lessons *must have been hard to ignore*” (Ibid, emphasis added; see also Kohli 1989).⁶⁸

The socially meaningful dimension of cultural schemas is central to understanding the sources of economic interests and policy preferences and is a crucial missing factor in the

left by the discredited idea(s). This leads to a ‘marketplace of ideas’ as political actors engage in contestation. This chapter provides an argument that provides a mechanism through which new ideas appear when old ideas become deligitimized, i.e. they do not arise through rational Bayesian learning nor simply ideas flowing through epistemic networks but are created as parts of cultural schemas by strategic actors. The next chapter considers contestation between competing schemas - causal ideas and social meanings - in the public domain. This process is akin to Heclo’s (1974) ‘powering’.

⁶⁸ Further, not only did the Green Revolution provide lessons about the developmental potential of the private sector, but also about the benefits of foreign expertise and technology in concert with domestic private capital. Additionally, the Green Revolution achieved success by providing different incentives to rural producers while maintaining the highly unequal class structure (Kapadia, 2009:207). This was a major departure from Nehruvian approach and would shape the way that the reforms were pursued in terms of FDI and the distributional assumptions of liberalization.

dominant rational choice, historical institutional and even sociological institutional approaches. Like Mohandas Gandhi and Nehru before her, Indira Gandhi's had both political and economic objectives. She not only wanted to improve economic growth – itself a 'fundamental' interest of political actors who need growth to maintain legitimacy and political power, as argued at the outset of Chapter Two – she also sought to counter the rise of the Janata Party coalition. The Janata Party had trounced the Congress in the Hindi-speaking heartland that was Congress' traditional political base by reviving Gandhianism to successfully contest the weakened and delegitimized Nehruvian and populist socialist schema that the Congress Party represented.⁶⁹ The direction that Mrs. Gandhi took and cultural content of the political rhetoric that she mobilized were not arbitrary. As argued in this dissertation, strategic actors create new schemas that not only embody rationalized causal relations that link means to ends, but which also are imbued with salient cultural symbols that are deeply historically embedded and have meanings that are widely understood. As such Mrs. Gandhi retreated from secularism and socialism, the former which was a hallmark of Nehruvian scientific socialism as argued in Chapter Five and the latter which reflected her first stint in office, by adopting and deploying communal and private-sector oriented political rhetoric (Rodrik and Subramanian, 2004).

This choice was neither the outcome of a rational Bayesian learning process nor was it a random shift; it had deep socio-historical roots. Kohli (1989:308) argues that "in India's political culture...the two packages of secular socialism and pro-business Hindu chauvinism have tended to offer two alternative legitimacy formulae for mobilizing political support". These 'packages' are analogous to the cultural schemas that this

⁶⁹ These two should not be seen as necessarily at odds, something that Rodrik and Subramanian (2004:28) intimate could be the case by arguing that attitudinal change was grounded primarily in political calculation, and not in a desire to enhance the efficiency of the economic regime. I argued in Chapter Two that separating economic objectives of political actors is not useful; economic objectives are often seen as a central element of establishing political legitimacy. For example, Kohli (2004:286) argues that 'fragmented multiclass' states like India and Brazil worry intensely about their legitimacy, thus much political (and economic) strategy can be understood as being driven by the need to gain legitimacy. Thus in earlier work Kohli (1989) argues that Indira's main objective was to counter the perceived threat posed by the Janata party, which had trounced Congress in the Hindi heartland in the 1977 elections. Her political rhetoric consequently became less secular and populist and more communal and private-sector oriented. I argue in this chapter that this is especially clear with Indira Gandhi various strategic moves, and crucially that the move towards communalist and private-sector oriented language was intimately tied to the rationalized causal ideas and social meaning of her new strategy.

dissertation has argued shapes actors' policy preferences. Further, they are comprised of the cultural elements – scripts, concepts, models, tropes – that Douglas (1986) argued actors combine through processes of 'bricolage'. Cultural schemas are the symbolic vehicles of meaning, including beliefs, ritual practices, art forms, and ceremonies that Swidler (1986) suggested comprise strategic actors 'cultural tool kits'. The origins and evolution of these competing "political cultures" were a crucial element of the political contestation among Indian business and political actors during the late colonial period that was described at length in Chapters Five and Six of the dissertation. Rodrik and Subramanian (2004:28) conclude that "After 1980, Indira dropped the first package in favor of the second...[and] actively sought to woo the business and industrial establishment." The causal logic and meaning of aspirational consumerism would play a central role. This new support for private business would not only affect domestic firms, it would also have major implications for changing preferences towards foreign capital. Further, as we will see in the next chapter the move towards Hindu chauvinism and the politics of caste and religion would have major effects on Indian politics and sow the seeds of the emergence of the Congress Party's most powerful challenger, the Hindu-nationalist Bharatiya Janata Party, in the 1990s.⁷⁰

FDI and Industry Level Reforms:

Automobiles, Telecommunications and Aspirational Consumerism

The pro-business shift was not simply rhetorical. At the industry level, automobile and telecommunications sector reforms became powerful symbols of the evolving cultural schema that placed the logic and meaning of aspirational consumerism at the center of the reforms. The Indira Gandhi administration's new consumerist bent was reflected in the slogan 'A television in every village'.⁷¹ The rationale was that communication technology would facilitate the achievement of India's unrealized democratic and development potential (Mazzarella, 2003:7). The expansion of television duly entailed state sponsored entertainment mixing the aspirational fantasy of Bollywood Hindi movies

⁷⁰ This would coincide with a significant and disturbing rise in ethnic, communal and religious violence in the 1980s and 1990s.

⁷¹ See Mazzarella (2003) for further discussion.

that transported poverty stricken viewers from their daily drudgery with doses of Indira Gandhi's speeches.⁷²

Television was the perfect medium through which to create powerful conceptions of modernity and progress. TV provided the most effective platform for selling the reforms as aspirational consumerism provided an antidote to the austerity of Nehruvian planning and the brutality of Indira's Emergency. Consumption was presented as a rationalized means to national prosperity through expanding aggregate demand, representing a new form of nationalism that would take on critical importance as the reforms accelerated and became more contested in the 1990s and 2000s. This had major implications for preferences towards foreign capital, as the aspirational goods that were the subject of television advertisement were overwhelmingly of foreign origin, whether through the manufacturer or the foreign lifestyle that they represented. The marketing and imagery of foreign-oriented consumer goods created a demand for the products of multinational corporations that would be crucial as FDI was slowly liberalized through joint ventures between domestic and multinational firms as the reforms accelerated in the 1990s.

Revamping India's international image was central to this transformation. India had long enjoyed a revered position as the leader of the non-aligned movement since the days of Nehru, but had been superseded by more recent depictions of horrific poverty, economic stagnation and technological moribundity. Indira Gandhi's own legitimacy had fallen significantly as she came to represent the fragility of democracy in the developing world and the dark period of the Emergency. India hosted the 1982 Asian Games, providing the government with a golden opportunity to project a new image of a competent and efficient state leading a modern democratic nation into the new era of globalization, not only outside of the country where India wished to reassert its position as a democratic developing country leader and had developed an economically important diaspora in the UK, US and the Gulf, but crucially within the country where its most important

⁷² She may have set aside the repressive tools of the Emergency, but Indira Gandhi hadn't completely lost her penchant for populism nor forgotten the lessons learned and experience she gained from her first cabinet position as Shastri's Minister of Information and Communication.

constituents were. Import duties on TV sets were temporarily lifted and color transmission began in 1982. This was followed by massive telecommunications infrastructure development in 1984, which unsurprisingly was an election year. The number of transmitters shot up from 20 in 1983 to 192 in 1984, eventually reaching 300 by the end of the decade when satellite television was introduced, the latter providing further relief from state-run television networks and truly bringing the rest of the world into urban middle class homes and rural village squares.

While television was an important element of the broad changes that were underway in Indian society and an important tool in promoting aspirational consumerism, liberalization was best epitomized by the automobile industry, particularly with respect to the role of foreign capital. Just as the automobile captured the essence of the post-war industrial imagination, it once again became the main symbol of India's liberalizing reforms. Autos represented freedom for Indians much as it had for Americans when the image of top down convertible whizzing a carefree young couple down the open road captured the socio-cultural essence of the 1960s; in India, the target was the similarly idealized nuclear family of 4 that yearned to be free from the overcrowded, unreliable and unsafe buses and trains to go to work, take children to school and enjoy family vacations.⁷³ Finally, the ability to own an automobile was a symbol of individual wealth and achievement that represented the shift from state based 'socialism' to market based 'liberalism'.

The automobile was the perfect consumer good. It reflected the aspirations of a nation that felt it had been long denied the fruits of industrial modernity by the repressive and ineffective Nehruvian license-quota-permit raj. Autos retained its deep social meaning as the main symbol of industrial development, modernity and progress as well as its technical advantages for industrialization by generating linkages between large assemblers, hundreds of medium sized first and second tier component manufacturers and

⁷³ The image of the nuclear Indian family of four was also aspirational as it reflected the state's family planning drive and links between family size and socio-economic class i.e. it ignored the reality of India's large and extended families structure. Further, the marketing image of the attractive young couple driving down the open road with no people in sight, itself a fantasy in overpopulated India, would become central to automobile ads in the 2000s.

thousands of small third tier suppliers in the labor-intensive unorganized sector. The industry remained a bellwether of India's post-independence progress and the outdated Indian vehicles that continued to stutter down the road were a stark reminder of the pitfalls of Nehruvian license-quota-permit raj just as the new vehicles would symbolize the drive towards modernity under the reforms. Crucially, foreign capital was deemed essential in reviving the Indian auto industry in the new aspirational consumerist schema. As such, we can assess the social effect of the reforms and changing FDI preferences through developments in the auto industry throughout the 1980s, as not only would FDI reforms in autos provide the most powerful symbol of the social changes that the reforms represented, they would also be the site of much of the political contestation that was to emerge in the 1990s.⁷⁴ This is the crucial role of social factors that receive little analytic attention in alternative theoretical formulations of preference change in comparative political economy (Hall, 1993; Blyth, 2002).

Two Wheelers and Light Commercial Vehicles: Indo-Japanese Joint Ventures

The transformation of the auto sector reflected the socio-politics of Indian reforms. Not only was it the main symbol of social and economic transformation, it also followed the institutionalized rules and practices through which the auto industry was initially established in the 1950s (cf. Dobbin 1993). Liberalization was carried out through internal delicensing but remained under the FERA rules, which were used to generate the foreign-domestic partnerships that revolutionized the industry. First, the sector remained segmented into three subgroups -- passenger cars, commercial vehicles and two wheelers -- and Indian firms seeking to enter the sector had to have a foreign joint venture partner as technology provider for their license application to be successful. Thus the institutional apparatus of the Foreign Investment Board, FERA and the license regime were modified but not jettisoned altogether, shaping the evolutionary process through which the government began to deregulate the participation of foreign and domestic capital in the auto industry.

⁷⁴ This provides insight into the reasons that FDI and JV conflicts had such deep social resonance. It also supports the auto industry case selection given the experiences of major Indian firms such as Hero and TVS as well as the effect of Tata's experience with its long-time partner Mercedes Benz in the 1990s. These issues are the subject of Chapter 8.

Though foreign firm participation in the auto industry was subject to a maximum 26% equity cap, several leading Japanese auto firms sought to take advantage of this policy shift and enter what was seen as a large and potentially lucrative market. Licenses were issued in the light commercial vehicle and two wheeler segments, resulting in the following joint ventures: DCM-Toyota, Eicher-Mitsubishi, Swaraj-Mazda (Matsuda) and Allwyn-Nissan in light commercial vehicles and Hero-Honda, Escorts-Yamaha and TVS-Suzuki in motorcycles. The moped assembler Kinetic also partnered with Honda to produce scooters while Bajaj Auto, the scooters manufacturer that had dominated the two-wheeler segment for more than two decades, signed a non-equity technical agreement with Kawasaki to enter larger capacity motorcycle production.⁷⁵ Indian firms wielded managerial control in all these joint ventures with their foreign partners providing engineering technology, vehicle design, and technical assistance in the establishment and operation of new production facilities. The institutional arrangements that governed these collaborations remained intact. Indian firms' preference for retaining managerial control when engaging in joint ventures with multinationals that stood in such stark contrast with their counterparts in Brazil remained as powerful and defining an element of Indian firm strategy as it was in the immediate post-war period, though even these longstanding firm preferences towards FDI would begin to change as liberalization accelerated and social contestation around the reforms intensified in the 1990s.

Both the LCV and two-wheeler segments had important social significance. Two wheelers fit the purchasing capacity of the growing Indian aspirational 'middle class' and served as the main mode of family transportation as they could accommodate a husband, wife and two or three children.⁷⁶ Two wheelers also provided the means transporting light

⁷⁵ The Indian firms that received licenses were a mix of large and small business groups. DCM, Bajaj and Escorts were among the most venerable groups in India, Eicher and Swaraj emerged from tractor manufacturing and thus were beneficiaries of the land reform and Green Revolution boom in the 1950s and 1960s, TVS was a well-established Southern business group that had been an auto component manufacturer and Hero was India's leading bicycle producer.

⁷⁶ Two wheelers were the main mode of transport for the emerging 'middle class' with the 'common man' relying on bicycle or foot. Liberalizing this segment also marked the end of the longstanding Bajaj auto monopoly that generated 10-year waiting lists due to pent up demand. The pervasive use of the two-wheeler as multi-member family transportation would later underpin Ratan Tata's purported desire to push

packages and even agricultural goods, particularly in rural areas. As such, liberalization of the two-wheeler segment had the largest direct impact in terms of the potential of Indian consumers to purchase a new vehicle.

Light Commercial Vehicles (LCVs) also had a wide effect on the Indian consumer public even though the product is ostensibly aimed at the commercial sector. As discussed earlier, the GOI Statement on Industrial Policy indicated a shift from the Nehruvian focus on large-scale capital investment and infrastructure projects -- consistent with the developmentalist views that prevailed globally in the post-war period -- to increasing levels of consumption amongst the middle class and the poor. This shift is aptly reflected in the light commercial vehicle segment. The demand for LCVs exploded in the 1980s for reasons that were intimately tied to the wider social and political dynamic of the reforms: these were the vehicles that were used to shuttle the consumer non-durable goods that Indira Gandhi's administration was pushing Indian consumers towards around the narrow roads of India's overcrowded cities, and from peri-urban distribution centers to remote villages and towns.

This dynamic stood in contrast to the ISI period when large trucks in the heavy commercial vehicle segment dominated by Tata's TELCO and Ashok Leyland were in demand to move steel and cement: the heavy inputs required of state-led infrastructure projects and heavy industry in the 1950s, and later fertilizer during the Green Revolution in the 1960s. Light manufacturing industry grew rapidly with the expanded concessions to the small-scale sector in the late 1960s and 1970s and accelerated with liberalization and the new market oriented consumerist focus ensconced in the Industrial Policy Statement that aimed to benefit "the common man in the shape of increasing availability of goods". LCVs were central to facilitating this availability. Transportation requirements thus shifted from big capital goods primarily produced by state-owned firms and the old business groups for use by the government to smaller consumer goods -- soaps, cosmetics, TVs, radios, electronics -- increasingly manufactured by newer medium sized firms and

the Tata Nano project as an inexpensive 'peoples car' that would reduce the unsafe practice of two wheelers serving as family transportation.

purchased directly by consumers. The symbolism was clear: heavy trucks represented the bygone era of high developmentalism whereas LCVs represented the emerging period of consumerist globalization.

Passenger Cars: Maruti Suzuki

Finally, and crucially, while the LCV and two wheeler segments were opened to oligopolistic competition between Indian-Japanese joint ventures through the licensing mechanism, the state reserved the potentially lucrative passenger car segment for itself. Only a single new firm was allowed into passenger cars, a joint venture between the state-owned Maruti Udyog and the Japanese firm Suzuki.

The entry of Suzuki into the domestic auto industry is often cited as the single most important symbol of the entire liberalization process but it owes its beginnings to decidedly illiberal roots in India's ruling family. Maruti Udyog began as a private firm formed in 1969 by Indira Gandhi's younger son Sanjay to achieve his dream of producing an indigenous 'national car'. However, the firm never began production and Sanjay was later killed in an airplane accident in 1980 while piloting his plane and attempting to perform a stunt.⁷⁷ Wishing to see her son's wishes fulfilled, a grieving Mrs. Gandhi had the firm nationalized and, following advice that success would depend on sourcing foreign technology, sought a joint venture partner (Okada, 1999).

The prospects for passenger car production seemed bleak. India's road infrastructure was extremely poor and despite its massive population purchasing power was weak. Further, the licensing regime that shaped the development of the auto industry resulted in high levels of vertically integration and an auto component industry that had severely underdeveloped technological capabilities and physical capacity. The duopolistic passenger car segment was occupied by the outdated Hindustan Motors Ambassador and Premier Autos Padmini, with annual production that was limited by the license raj to

⁷⁷ Sanjay "did three loops in the air, tried a fourth but lost control. The plane crashed a mere 500 yards from the home he shared with his mother. Both Sanjay and his co-pilot died instantly" (Guha, 2008) Sanjay's death was a massive emotional and organizational blow for Indira Gandhi as Sanjay was her right hand.

30,000 and 20,000 cars annually.⁷⁸ All this had major implications for the potential to generate minimally efficient economies of scale (cf. Okada, 1999). Nevertheless, the government set an ambitious target of 100,000 units per year and numerous foreign firms were approached for proposals to manufacture a small, low cost fuel-efficient car. Most major auto firms balked at the prospect of partnering with the government, particularly given the uncertain market prospects, the government's lofty expectations and its insistence on capping foreign equity participation at 26%. Ultimately, Suzuki was the only firm to accept the government's terms as it was looking to establish itself in a global auto industry dominated by its larger Japanese, European and American counterparts.

The Maruti-Suzuki joint venture revolutionized the industry by offering a modern, well-built and reliable passenger car at an affordable price. It also led a complete restructuring of the industry. The firm prompted a shift away from vertical integration model that Indian assemblers still followed but which most global producers had long since abandoned to the contemporary tiered and modular industry structure. Suzuki also introduced the famed Japanese organizational processes and manufacturing practices that allowed Japanese firms to attain global dominance in the 1980s. Maruti-Suzuki diffused these production methods and revolutionized industry practices by facilitating organizational learning and technological upgrading amongst a wide range of domestic suppliers that the Indian state ensured would capture benefits through strict local content rules (Saripalle, 2005). Thus just as the overpriced Hindustan Ambassador with its outdated 1950s design and obsolete technology symbolized the failings of Nehruvian scientific socialism and the license Raj -- not least because of it was the vehicle of choice for the bureaucratic and political elite that maintained the system that kept quantities low and prices high -- the Maruti Suzuki 800 became the symbol of the new liberalization era. Not only did the new car offer modern design, a comfortable ride and fuel efficiency, it was also available in large quantities and at a price that the growing Indian middle class was able to afford. The industry was thus completely transformed by passenger cars that middle class Indians could afford, two wheelers that the 'common man' could aspire to

⁷⁸ The licensing and FDI restrictions described in the previous chapter resulted in the industry becoming a domestic duopoly while the Brazilian industry supported many brands with annual vehicle production levels that were more than ten times higher than India.

and light commercial vehicles that delivered a wide range of consumer goods that Indians had been denied for decades.

SECTION V.

Rajiv Gandhi: “Taking India into the Twenty-first Century”

The new aspirational consumerist cultural schema facilitated a complete reorientation of the Indian political economy. However, not all of the effects were positive. Indira Gandhi was assassinated by two of her Sikh bodyguards on October 31, 1984 just as the new auto sector JVs that were created under her initial reforms were being launched. Her death was not unrelated to the wider socio-political dynamics that prompted the turn to liberalization. As indicated earlier, the construction of the new aspirational consumerism cultural schema had a darker component in the rising communalism, casteism and religious extremism that Indira Gandhi accommodated if not utilized for political gain (Kohli, 1987; Frankel, 2004). Mrs. Gandhi’s appeal to widely understood communal symbols and tropes helped to legitimize her new policy approach but also destabilized India’s fragile social balance. It also contributed to growing Hindu-Muslim and Hindu-Sikh violence peaking in a crisis in the Punjab region of North India. A large group of Sikh separatist extremists sought refuge in the Golden Temple, the most holy site in the Sikh faith, and a standoff with the military ensued. The army ultimately stormed the temple and as many as three thousand people were killed, mostly Sikh pilgrims caught in the crossfire. The incident was a massive tragedy, and the depth and horror of communal tension was revealed when news of the assassination precipitated massive waves of retributive violence against Sikhs by mobs of mostly lower caste Hindus in many cases led by Congress politicians (Guha, 2008). The mobs looted Sikh homes and businesses and killed more than a thousand Sikhs in New Delhi alone.

Upon Indira Gandhi’s assassination her elder son Rajiv, who had been pressed to enter politics to support his mother after the death of his younger brother Sanjay, was immediately sworn in as Prime Minister. Such was the belief in the Nehru-Gandhi family

that the President didn't even consult with Congress high command officials before anointing Rajiv as the country's new leader (Frankel, 2004). At age 40 he not only became the youngest ever Prime Minister of India, but after calling snap elections to secure a mandate he also entered the Prime Ministers' office with the largest ever parliamentary majority, reflecting a sympathy vote following Mrs. Gandhi's death as well as the positive response to the first steps of reforms (Virmani, 2004).⁷⁹

Rajiv Gandhi was seen as reluctant politician, the complete antithesis of the stereotype of India's political class. Though Rajiv attended Cambridge University like his grandfather and great-grandfather Jawaharlal and Motilal Nehru (his mother attended Oxford), he dropped out and showed little interest in politics, instead becoming an airline pilot and marrying the Italian Antonia Maino (Sonia Gandhi). With his relative youth and somewhat rebellious past Rajiv Gandhi was seen as emerging from an entirely different mold, despite being yet another scion of the Nehru-Gandhi family.⁸⁰

A new optimism permeated Indian society with Rajiv's entry to the Prime Minister's Office. The reforms suggested a new permissiveness, tentative at first under the chastened return of Indira Gandhi, but exploding under the youthful glamor and worldly modernity of her ex-pilot son Rajiv. While Indira Gandhi launched the reforms that set the country on a new path, her legacy remained the tumult and turmoil of the 1970s and especially the repressive Emergency; by contrast, Rajiv Gandhi embodied the enthralling new possibilities for a young Indian nation with a population that was 75% under age 35. With his glamorous background as a pilot, disdain for politics and Italian wife he brought a cosmopolitan internationalism that fit perfectly with the new move towards liberalization in India as well as the wider process of globalization of which Indians were

⁷⁹ This was a reflection both of a sympathy vote following Mrs. Gandhi's death as well as the positive response to the first steps of reforms (Virmani, 2004).

⁸⁰ Rajiv's rise pushed aspirational consumerism even further. He was an ideal symbol of liberal globalizing change, much like Gandhi was for his village centered economy, Nehru was for state-led industrialization and non-aligned foreign policy, Indira was for state-centered populist socialism. Later the elderly Manmohan Singh would similarly symbolize the rational technical expertise of liberal economics. Rajiv embodied the modern, globalizing social meaning element of the aspirational consumerist schema; the highly regarded and technocratic economist Singh would similarly epitomize the rationalized causal ideas of liberalization.

increasingly aware. Many Indians believed he was the perfect leader to return India to its rightful position in the world that was first denied by the East India Company and British colonialism and later by the failed policies of Nehruvian scientific socialism and the license-quota-permit raj. This view was succinctly captured by Arvind Virmani, former Chief Economic Advisor to the Prime Minister:

The political economy of reform in India is driven, in our view, by a generational divide between those brought up before independence and those born and brought up after independence. The most important cultural memory of the former was about being ruled by the British government for a century and (most galling) by the British East India Company for a century before that. This translated to varying degrees into what we term the **“East India company syndrome,”** an **archetypal fear of foreign capitalists** and a **disdain for the domestic variety**. In acute form it also encompassed a **lack of confidence in ones abilities** relative to white foreigners...The post-independence generation, which was largely free of such hang-ups, reached adulthood in 1965-66 and middle level positions by 1980-1 (age < 35 years). In the 1984 elections, this generation gave the Congress party led by 40 year old Rajiv Gandhi the largest majority ever attained in Parliament. There was a hope among the people that this former airline pilot could modernise the economy and take the nation to greater heights.⁸¹

Rajiv’s circle of advisors reinforced his image as the symbol of a new Indian modernity. He entered the Prime Minister’s office surrounded by a new group of technocrats who were young, technologically savvy representatives of the cutting edge new telecommunications and computing industries rather than career bureaucrats who came up through the Indian Administrative Service (IAS). These advisors brought an image of efficiency and competency to government in New Delhi that struck a sharp contrast to the corrupt reputation that IAS officials had gained during Indira Gandhi’s tenure in office.

Rajiv was a major supporter of these ‘modern’ industries that were closely identified with the transformation that his administration was promoting:

The beginnings of consumerist liberalization under Nehru’s grandson Rajiv Gandhi coincided with the rise of telecommunications technology as a central figure in official imaginings of Indian society. From the beginning ‘Computerji,’ as some of his aides referred to him, was identified not only with televisual spectacle, but also with the magic of ‘communication’ and **deregulated consumer markets** as mechanisms for overcoming the stalemates of Indian national development or, as Rajiv’s signature slogan had it, **‘taking India into the twenty-first century’** (Mazzarella,2003:154).

Rajiv was not only credited for the technological changes that were sweeping the country, from growing availability of consumer goods to the provision of the now ubiquitous

⁸¹ Virmani, (2004:27-28).

bright yellow STD telephone boxes in villages across the country⁸² his popular image as 'Mr. Clean' was only enhanced by remaining aloof, or some might less charitably say naïve, of the political intrigue of New Delhi. He embodied an unsullied persona and modernizing expertise that was a contemporary parallel to his grandfather Jawaharlal Nehru when he led India to independence in 1947. Rajiv was thus able to re-energize many in India's highly professionalized bureaucracy whom had become weary of the political machinations and corruption introduced by Indira Gandhi.

The excitement Rajiv generated extended well beyond the state apparatus to permeate the business community and wider society. Both Nehru and Rajiv Gandhi entered the Prime Minister's office at moments of optimism and excitement, tinged by the sense of new global possibilities – independence in India and wider decolonization in the developing world following the end of WWII for Nehru; liberalization and wider globalization following the global slowdown and macroeconomic volatility from the twin oil crises of the 1970s for Rajiv. However, while Nehru's socialist leanings and subordination of the private sector under the planning regime instilled wariness in the capitalist class, managers closely identified with the business-friendly professionalism and outward looking approach that Rajiv and his staff brought to New Delhi. Many older members of the managerial class held an indignant frustration stemming from the restrictions and bureaucratic inefficiencies of the license raj and a pent up desire to be 'world class' that liberalization and the move towards a 'free' market offered to provide. At the same time, younger generations of managers were increasingly studying and working abroad and so shared Rajiv Gandhi's overseas experience and sense of the possibilities. Thus while many of these actors were learning new economic and managerial ideas – including the rationale of strategic alliance and joint venture strategies that would become increasingly important as liberalization progressed – the arrival of Rajiv imbued their rationalized

⁸² The expansion of fixed line telephony in India was the brainchild of Satyanarayan Gangaram 'Sam' Pitroda, a IIT trained engineer who worked with GTE in Chicago before returning to India and founding the Centre for Development of Telematics in 1984, and becoming Chief Technology Advisor to Rajiv Gandhi in 1987 and chairman of India's Telecom Commission in 1989. The role of the highly educated diaspora, particularly engineers, would grow significantly in importance over the course of liberalization. Diasporas would not only directly affect India through entrepreneurial ventures, but just as importantly by presenting a new image of Indian's as successful in technology intensive sectors in the US and Europe.

managerial ideas with social meaning that accorded crucial legitimacy to their preferences and actions.

With Rajiv in power an outward-oriented approach might no longer be seen as inherently ‘non-Indian’ or unconfident mimicry of the West, but was itself the means through which India would achieve global status and goals. It could be presented as just as nationalistic as the now-presumably misguided drive for *swadeshi* self-reliance in the previous era. These business actors’ own global ambitions were glamorized and legitimized by Rajiv Gandhi who provided the appealing new face of Indian modernity and progress. Thus the mechanism of preference-shaping ideas from learning through global epistemic networks or studying abroad that are important in the sociological institutional literature play an important role, but the social meaning that they are imbued with is the crucial factor. All this fit perfectly with the nationalist approach outlined in the 1980 Industrial Policy Statement to support domestic business so it could compete in global markets while limiting foreign firm entry to serving as technology providers to augment the competitiveness of domestic firms. Crucially, the emotive response that Rajiv generated was qualitatively different from his mother, and especially his younger brother Sanjay who was associated with the worse of Indira’s repressive abuses. After decades of socialist, populist and later communalist rhetoric under Nehru and Indira Gandhi, Rajiv appeared post-ideological.

The Social and Economic Effects of Liberalization

The emerging aspirational consumerist cultural schema that guided Indira Gandhi’s and especially Rajiv’s new policy approach not only became institutionalized as a new policy paradigm, it initiated the beginning of a profound transformational effect on Indian society and public culture. This societal effect grew over the course of the decade and into the 1990s and 2000s, and is crucial to understanding the evolving policy preferences and the wider changes underway in the Indian political economy.⁸³ The importance of

⁸³ This speaks to the theoretical utility of cognitive and cultural schemas as socially meaningful thought systems that are coupled with rationalized means-ends relationships as this is downplayed in the ‘ideas’ literature in political economy and even much of the sociological institutional literature that might otherwise be expected to rely on stronger notions of societal effects.

social embeddedness is underplayed in other strands of the social learning, even those that posit a ‘sociological’ mechanism (Hall, 1993; Blyth, 2001, 2011; Berman, 2011, etc.).

The reforms were carried out under twin banners of liberalization and the emerging phenomenon of globalization. The conceptual and discursive symbolism of ‘liberalization’ resonated powerfully in India given the restrictions and restraints of the various regimes that governed India in the pre and postcolonial periods. Consider that the arc of the Indian social memory and historical narrative was dominated by the transition from foreign rule under the East India Company and the imperial British Raj, to Gandhian asceticism during the independence struggles, strikes and boycotts of the 1920s and 1930s, to the restrictions of the Nehruvian scientific socialist license-quota-permit raj following independence, to the social and political chaos that led to the Emergency under Indira Gandhi. All these socio-economically constraining forces were finally being unshackled by the reforms.

The aspirational consumerist lens through which Indians increasingly perceived globalization and liberalization constituted a direct challenge to the late colonial and post-independence developmental ideas of Nehruvian scientific socialism and Gandhi’s village economy. The Nehruvian and Gandhian cultural schemas beseeched Indian citizens to sacrifice for the present in the hope of future plenty, whether material gain in the case of Nehruvianism or spiritual bounty in Gandhianism. Despite the contestation between those systems of meaning and thought that dominated the 1920s-1960s, both required similar control of material desires.⁸⁴ This was the nationalist demand.

By contrast, liberalization in the 1980s served as a sedative to the resentment of the earlier period of state control and provided consumerist relief from the weariness of conflict from Partition, military defeat to China, three wars with Pakistan, the Emergency

⁸⁴ Nehru frequently spoke admiringly of the Russian people’s sacrifice and deferment of material desires in the interest of nation building through large-scale industrialization, while other scientific socialists wrote of the sacrifices that Japanese citizens made during their own rapid industrialization in the late Meiji period. Similarly, Gandhi spiritual system constantly called for bodily self-sacrifice as central to the return to traditional Indian (Hindu) groundings. This was posited as a direct challenge to a view of Western modernity that manifested in materialist demands.

and sporadic bouts of sectarian bloodshed. This moment marked the beginning of the construction of 'liberalization' as a powerful discursive symbol in Indian society with a resonance that echoed Nehru's call for socialism at the height of the anti-imperialist struggle. The development discourse was transformed from state control of industry from the 'commanding heights' to human rights, democracy and social progress. The latter still connoted material prosperity and economic growth through industrialization, but by unleashing entrepreneurial energies of private firms through the market rather than state ownership and control of industry as under Nehruvian scientific socialism.⁸⁵

Rajiv Gandhi's ascension to power was not just symbolic, it contributed to the changing preferences in government and had immediate policy impact as his administration accelerated the scope and pace of reforms through a wave of industry de-licensing. In March 1985 a third of all industries (SITC 3-digit level) were exempted from license requirements. Further, as the table below shows de-licensing took place and the rules governing technology transfer agreements were significantly liberalized. However, trade barriers were largely maintained reflecting the internal orientation of the reforms.⁸⁶ Rajiv is thus popularly credited with India's initial reforms and is identified with liberalization and the dismantling the license-quota-permit Raj and the expansion of technology inflows by business actors and the general public alike. Even though Indira Gandhi launched the reforms, her legacy remained the political chaos of the 1960s and the excesses of the Emergency in the 1970s.

⁸⁵ This produced a binary discursive narrative of the smothering state with its self-serving politics, corrupt and overwhelming bureaucracy, and vested interests of the license-quota-permit Raj vs. the transformative potential of the market. Old developmentalist discourse was being trumped by a new liberalization discourse designed for the new youthful generation of an aspirational Indian society.

⁸⁶ Rodrik and Subramanian (2004:38) describe the internal reforms of the 1980s as follows: "The four major internal liberalization measures that were implemented in 1985 and 1986 involved: (i) Eliminating the licensing of 25 categories of industries subject to certain fairly onerous conditions; (ii) extending delicensing to large companies in 22 industries which were previously restricted by the Monopolies and Trade Restrictive Practices Act (MRTP) and Foreign Exchange Regulation Act (FERA); (iii) allowing companies in 28 industries to expand the scope of their operations into related activities; and (iv) allowing companies that had reached 80 percent capacity utilization to expand their capacity up to 133 percent of that reached in any of the previous years. Apart from the first, all the remaining measures essentially allowed incumbents to operate more freely rather than facilitate the entry of new domestic firms and promote competition. Even the limited reduction in protection of capital goods industries served to increase the effective protection of incumbents in final goods industries."

Table 1: Internal De-licensing

	1980	1985	1990
Number of industries de-licensed	0	41	44
Percentage of real output de-licensed	0	45	53
Percentage of employment de-licensed	0	42	46
Mean applied tariff (%)	120	144	135

Source: Adapted from Aghion, et al (2006) table 1. Industrial performance data is based on an unbalanced panel at the state level. They are included to indicate (1) the dramatic rise in industry output and (2) the capital-intensive nature of the structural change that occurred with the reforms.

Finally, Rajiv was not only credited with reforms, but also with the positive economic growth that characterized the early reform period of the 1980s. The table below shows the decline in growth during Indira Gandhi's first stint as Prime Minister and the recovery in the 1980s, particular the role of industrial growth in the recovery in the 1980s. Crucially, though industrial growth was high in the Nehruvian period, it was largely concentrated in the public sector and didn't demonstrate wider economic growth generating capacity through linkages with other parts of the economy. By contrast, Indira Gandhi's second round as Prime Minister as well as Rajiv's stint saw a return to high industrial growth but this time primarily in the private sector, with much broad economic growth outcomes (Kohli, 2006a; Rodrik and Subramanian, 2004; De Long, 2003).

Table 2: Economic Growth (1950-90)

	1950-64	1965-79	1980-90
GDP growth	3.7	2.9	5.8
Industrial growth	7.4	3.8	6.5
Agricultural growth	3.1	2.3	3.9

Source: Adapted from Kohli, 2006a: Table 1

VI. Conclusion

This chapter considered the competing mechanism of social learning through which rational choice, historical institutional and sociological institutional perspectives suggest that preference change occurs. The chapter argued that while each of these perspectives provides an important insight to the mechanisms underpinning the process of preference change but they are all incomplete. The rational Bayesian learning perspective rightly points out that actors recognize when causal ideas underpinning preferences fail to match

outcomes, but finds little evidence to support the mechanisms preference change through the process of information search, observation and ‘hypothesis testing’ this approach posits (Hall, 1993). Similarly, constructivists direct important attention to the role of epistemic networks in the diffusion of new ideas that shape preferences, but too often ignore the agency and creativity through which actors adapt causal ideas to fit their social and political environment. Instead the chapter stressed the role of strategic actors in responding to political and economic challenges by constructing new cultural schemas that imbue fresh causal ideas with historically salient social meaning. While most of the analysis in this chapter was at the level of the state and policy the next chapter shifts to the level of state-society interactions to highlight the role of discourse, debate and political contestation in the adoption of new ideas that produce preference change amongst state and business actors and the implications for FDI policy and firm strategy.

The argument of this chapter can be summarized as follows. Theories of social learning from rational choice and historical institutionalism both posit policy failure as a catalyst for preference change. However, this chapter showed that while the recognition of previous policy failings was crucial it did not automatically produce nor adequately explain the process of preference change either in 1966 when Indira Gandhi became Prime Minister, 1977 when the Janata Party defeated Congress nor in the 1980s when Mrs. Gandhi returned and Rajiv Gandhi later assumed office. Instead, the empirical analysis shows how preferences change as strategic actors construct novel yet deeply historically embedded cultural schemas that posit alternative causal ideas embedded in historically meaningful narratives, salient cultural symbols and tropes. These schemas are new but they are not created ‘from scratch’; instead they reflect creative recombination of pre-existing historically embedded and salient cultural tropes that are widely understood. This “capacity to transpose and extend schemas to new contexts” is the very definition of agency (Sewell, 1992:19). Further, successful schema construction is a highly creative process, as “part of what gives cultural practice its potency is the ability of actors to play on the multiple meanings of symbols – thereby redefining situations in ways that they believe will favor their purposes. Creative cultural action

commonly entails the purposeful or spontaneous importation of meanings from one social location or context to another” (Sewell 1999:51).

The chapter showed how Indira Gandhi and other political actors utilized publicly available symbolic vehicles “through which people experience and express meaning” (1986:273). These cultural artifacts are available in the ‘cultural toolkit’ to craft strategies and solutions to evolving political and economic challenges (Swidler, 1986:273; Douglas, 1986). Indian political actors used these symbols and tropes to legitimize and delegitimize foreign and domestic economic actors through competing policy strategies. This creative process is akin to what pragmatists like Herrigel (2010; 2011) posit, but power was a central element that pragmatists ignore. Power and culture operate together as actors “make continuous use of their considerable resources in efforts to order [social] meanings” (Sewell, 1999; Fligstein and McAdam 1995; 2008). This dynamic is apparent throughout the narrative provided in this chapter and is even more evident in the next chapter as business actors increasingly participate in political contestation over the legitimacy of domestic versus foreign capital in the pursuit of Indian industrial development.

CHAPTER 8

Constructing Cultural Categories of Capitalist Legitimacy in the Liberalization Era (1991-2012)

I. Introduction

This final empirical chapter analyzes political contestation over FDI rules during the course of the liberalization period (1991-2012). It shows how economic actors seek to present themselves as legitimate instruments through which the development ambitions of the Indian state and wider society can be realized. This process involves significant agency and contestation between competing economic actors. Indian economic actors legitimate themselves and delegitimize others by creating and deploying cognitive and cultural categories of ‘traditional’ and ‘modern’ business actors. These categories reflect socially constructed cognitive and cultural schemas, which this dissertation has defined as rationalized causal ideas that are imbued with historically salient social meaning. These categories and schemas serve as interpretive frames through which actors determine the legitimate role of foreign and domestic firms in the project of national development. They play a powerful role in shaping actors preferences, particularly in the context of environmental complexity and uncertainty that characterize periods of institutional change and economic reform.

The chapter and the wider dissertation contribute to the growing inter-disciplinary literature in institutional theory by bridging insights from macro-institutional comparative political economy and micro-organizational economic sociology. It argues that institutions are key devices through which actors are legitimized, but institutions themselves are created through active socio-political processes of human agency. This chapter and the wider dissertation aim to promote new understandings of the mutual constitution of preferences, actors and institutions in order to provide richer explanations of socio-political behavior and long run economic outcomes. The theoretical framework elaborated in Chapter Two demonstrated how actors’ rationalized beliefs about causal means-ends relationships provide the substantive content of their policy preferences. This is a central argument of institutional strands of comparative and international political

economy (Hall, 2005; Blyth; 2001; Abdelal et al, 2010). These rationalized and socially meaningful causal beliefs are akin to what economic sociologists and organizational theorists refer to as ‘institutional logics’ that aid cognition, particularly under conditions of environmental complexity and uncertainty (Dobbin, 2004; Thornton, Ocasio and, 2012). However, while these logics represent widely shared understandings of legitimate goals and how they should be pursued, they are not simply taken-for-granted by passive actors (Battilana and Dorado, 2010); the process through which agents acquire those beliefs underpins the always-contested socio-political dynamics of preference formation (Hall, 2005:155). This chapter and the wider dissertation thus contribute to interdisciplinary institutional perspectives on how rationalized causal ideas rise and fall over century-long periods of time (Fligstein, 1990; Dobbin, 1994). It is clear that these socially meaningful causal ideas operate across macro-institutional and micro-organizational levels, yet economic sociology and political economy literatures addressing these different levels of analysis are rarely brought together. Recent work such as Wry, Cobb and Aldrich (2012) attempts to do so within the organizational studies literature by linking the resource dependence and institutional logics literatures as a way of theorizing the effects of power and contestation within a complex institutional environment. This chapter has similar theoretical ambitions, albeit by integrating economic sociological insights with a political economy approach.

The rest of the chapter is organized as follows. Section II lays out the theoretical framework that guides this chapter by elaborating the role of culture and cognition in category construction and deployment. Section III marks the acceleration of liberalization in 1991. It presents the rationalized causal ideas that underpinned both state and firm preferences towards foreign direct investment. Section IV marks the beginning of analysis of the backlash that emerged amongst leading Indian economic actors. It shows how the causal ideas described in Section III are imbued with salient social meaning as actors develop and deploy competing representations of domestic and foreign business practices in the domain of FDI policy contestation. Section V embeds this conflict amongst business actors in the wider political dynamics of the mid-late 1990s. It charts the rise of a new political party that challenged and displaced the dominant Congress in

part though deploying cultural resources as weapons in the raging FDI debates. Section VI sees the imposition of a major policy rule known as Press Note 18 that dramatically alters the institutional environment that shapes market interactions between domestic and foreign firms in joint venture relationships. It analyzes the causal ideas and social meanings that underpin PN18's creation through a brief comparative case study of two Honda joint ventures, and then considers the reaction to the policy change by foreign and domestic firms. Section VII describes how competing actors develop and deploy new socially meaningful causal ideas in the 2000s in response to state intervention and new market developments. The chapter ends with a brief summary and conclusion in Section VIII.

II. Culture and Cognition:

Rationalized Causal Ideas and Historically Salient Social Meanings

This research points to the origins and evolution of rationalized causal ideas and the cultural meaning systems in which they are embedded. It analyzes the effect of these ideas and meanings on FDI policy and firm strategy: business and state practices that together shape the wider institutional environment. The dissertation identifies the origins and evolution of these ideas from the late 19th century through the present. It shows how these rationalized causal ideas emerge from economic theories that posit causal relationships between FDI and development outcomes. However, as this chapter and the wider dissertation show, there are competing theories and causal ideas at play in both the scholarly and policy discourse that shape actors beliefs about the economic effects of FDI that in turn structure the wider institutional environment. Two causal ideas are crucial. The first holds that foreign capital contributes to industrial growth and development through knowledge and technology spillovers that benefit domestic firms (Blomstrom and Kokko, 2003).¹ By contrast, a similarly compelling logic posits foreign capital as

¹ Chapter Two detailed the nature of these spillovers and the mechanisms through which the literature suggests they might occur, but they are briefly recounted here. Spillovers generally refer to the transfer of managerial practices, production methods, marketing techniques or any other forms of knowledge embodied in goods or services. Mechanisms may include knowledge transfer through observation and imitation of production processes or marketing methods by domestic firms, learning through movement of labor from MNCs to domestic firms or interactions with MNC managers or technicians in a variety of

crowding domestic actors out of oligopolistic markets through abuse of monopoly power, especially with respect to multinationals superior access to finance and technology (Amsden and Hikino, 1994).² These represent competing theories that numerous studies in the scholarly and policy literature have been unable to resolve (Aitken and Harrison, 1999; Gorg and Greenaway, 2004). However, while it may produce deadlock in scholarly debates, this indeterminacy facilitates political contestation between economic and political actors wielding competing causal ideas as they battle to shape the policy and institutional environment in their favor. This is an area of interest to political economists, economic sociologists and organizational theorists.

Chapter Two argued that if the “complexity of causal economic relationships in the social world” creates uncertainty that precludes actors from determining their preferences analysts must turn to the cognitive and cultural mechanisms “that agents rely upon when determining their actions...in order to maximize their outcome[s]” (Beckert, 1996:814). It suggested that rationalized causal ideas are a crucial *cognitive* element of preferences that allow actors to construct means-ends relationships. As the next two sections show, the importance of causal ideas in shaping actors preferences is increasingly well-recognized in literature from across rational choice, historical institutional and sociological strands of the new institutionalisms (Beland and Cox, 2011). However, there is a second *cultural* element of preferences that receives less analytic attention.³ This cultural dimension plays a complementary role by providing the socially meaningful and

spaces including industry associations, workshops, training sessions, etc. Knowledge spillovers to domestic firms may also occur through the entry of foreign suppliers or service providers (e.g. consultants) as a result of foreign firm entry. Domestic firms may also benefit through supplier relationships with MNCs, particularly those that encourage time or quality-based efficiency improvements.

² Just as there are multiple mechanisms through which positive spillovers might occur, there are also a number of channels through which domestic firms might be disadvantaged by foreign firm entry. These include loss of markets due to competitive effects of more efficient MNCs or loss of skilled labor through poaching due to MNC entry. Domestic firm’s production costs may rise due to loss of scale. Market losses may increase average costs due to loss of scale-based efficiencies while skilled labor losses also negatively impact efficiency (cf. Aitken and Harrison, 1999).

³ Interestingly this dimension is recently being integrated in the economic sociology and organizational studies literatures, highlighting the analytic utility of bring these literatures into productive conversation. This is elaborated in the recent Special Issue of *The Academy of Management Journal* “Organizations and their Institutional Environment – Bringing Meanings, Value and Culture Back In.” 2010, Vol. 53, No.6 of which Suddaby et al (2010) provides the introduction.

historically rooted cultural symbols, narratives and tropes that are essential for motivating human action.⁴

The relationship between the cognitive and cultural dimension of preferences requires further elaboration. The growing consensus in the new institutionalisms in economics (North, 2005), political science (Hall, 1993; Blyth, 2002) and sociology (Dobbin, 1993) on the role of causal ideas, such as those provided by economic theory, is consistent with my argument that preferences are comprised in part of rationalized causal ideas. However, a crucial missing element in many new institutional conceptions of preferences is the social meaning with which causal ideas must be imbued, the salient historical narratives in which they must be embedded and the cultural symbols and tropes that must be utilized by actors in conveying causal ideas to others in order for them to be fully internalized. That is, ideas that are weakly embedded or do not fit the historical narratives and collective social memory of a given society have little chance of resonating with societal actors much less shaping preferences and behavioral outcomes. Imbuing ideas with social meaning is thus a crucial element of preference formation, but it does not happen naturally; it entails significant agency and creativity on the part of strategic political and economic actors. These actors, often prominent figures in business or the state with access to valuable social, political and economic resources, utilize widely understood cultural symbols and historically salient narratives to devise and deploy new schemas. These schemas underpin categories that posit legitimate roles for foreign and domestic capital in the national development project (Douglas, 1986; Swidler, 1986; Sewell, 1992). This dissertation thus contributes to the new institutional literature on preferences, social learning and the politics of ideas by highlighting the socio-historical and cultural embeddedness of rationalized causal ideas along with the role of agency in shaping political and economic outcomes. This crucial social and historical dimension of

⁴ This cognitive element operates primarily in the mind of the individual, as compared with inter-subjectively held social meanings and cultural symbols that are shared across members of a group. Economic sociologists see these as complementary analytic approaches to understanding agency and cognition (DiMaggio, 1997; Dobbin, 2004; Beckert, 1996). A growing literature in comparative and international political economy is engaging with the theoretical architecture of cognitive frameworks (cf. Abdelal et al, 2010) but less so the social and cultural, with some political scientists see this separation as epistemological issue (cf. Rathbun, 2008). This dissertation aims to demonstrate how the two can be productively integrated.

preferences is often downplayed or completely ignored in rational choice, historical institutional and even some sociological institutional formulations of the new institutional literature.

Categories, Culture and Cognition

The construction of cognitive and cultural categories is a crucial mechanism through which these socio-political processes occur. The classic works of Emile Durkheim and Max Weber provide a social-psychological mechanism of cognition through which actors make sense of the world. Durkheim (1915) argued that the human mind creates categories in order to map the complexity of their environment. These frameworks are not only situated in the individual consciousness, they are inter-subjectively shared across individuals and groups through institutions and social interactions. The creation of cognitive categories is thus itself a social activity (Dobbin, 2004). Durkheim (1915) provided the social underpinnings of cognition by identifying the human inclination to collectively make sense of world by classifying things and attaching meaning to them (Dobbin, 2009). This approach has been central to research programs in behavioral economics, cognitive psychology and other social scientific disciplines (DiMaggio, 1997; Mullainathan et al, 2008; Thornton and Ocasio, 2008). Behavioral economists have adopted ideas of ‘coarse sorting’ to show how actors group situations into categories to which they apply standard inferential models. Economic sociologists have illustrated the role of categories in directing financial flows and policy rents to market actors (Zuckerman, 1999). However, categories like wider institutions don’t just constrain action; they also serve as enabling cultural resources for strategic action, as scholars from across the disciplines have increasingly shown (Swidler, 1986; DiMaggio, 1997; Fligstein 2001; Mullainathan et al, 2008).

For policymakers and other societal actors struggling to make sense of the complexities of the economy, the politics of foreign direct investment often comes down to a single question: who are the legitimate economic actors through which development goals of the state should be realized? That is, whose activities and business practices contribute to the pursuit of modernity? While these end goals themselves are objects of societal

contestation, a central element of the process is determining the means through which policy ends should be achieved and the nature and identity of the actors that should receive policy support. This provides insight to long-run historical variation in policies that swing from support of British managing agency firms in late 19th century, to emerging Indian firms and multinational corporations in the early 20th century as perceptions of Indian capital were transformed from 'traditional' to 'modern' while multinational firms emerged as an entirely new 'modern' organizational form. Both became increasingly favorable to British colonial and nationalist actors amidst the growing delegitimization of the managing agencies. This evolution continued as support for Indian state-owned firms relative to private capital grew in the 1950s, and the variation is most sharp during fluctuations in support for foreign and domestic firms in the post-1991 liberalization period.

Chapter Two argued that preferences towards FDI are not determined by rational calculation nor given naturally by structural position. Preferences are shaped by cognitive and cultural schemas: rationalized causal ideas imbued with historically salient social meaning. These schemas serve as interpretive frameworks through which state and wider societal actors classify foreign and domestic firms as legitimate or illegitimate instruments of development in the presence of environmental complexity and uncertainty. The legitimacy of these actors in the eyes of state and society in turns determines the shape of the policy and institutional environment. Capitalist legitimacy is determined by institutions, both formal (e.g. legal rules) and informal (e.g. culture and norms). These serve to *both* enable and constrain by legitimizing or delegitimizing domestic and foreign firms as the economic actors who are advancing the goals of the nation. This legitimacy determines whether their activities should be supported or restricted by state policy. However, these categories are not given *a priori*, they are products of social and political contestation between business and state actors.

Cognitive and cultural schemas not only apply to Indian state and societal actors, they also serve as an interpretive frameworks for business actors in developing their own strategies for engaging with multinational firms *and* for multinationals considering their

entry strategies and mode of engagement with Indian firms. Schemas are particularly important as cognitive devices given competing causal ideas on whether multinationals have positive or negative effects on domestic firms, and crucially, the institutional and organizational *mechanisms*, such as technology partnerships and equity joint ventures, through which gains can be maximized and risks minimized. The indeterminacy of competing causal ideas generates environmental complexity and uncertainty. Cultural representations imbue ideas with salient social meaning that allows firms to make sense of this complexity by categorizing other business actors' practices and behavior, such as in their joint ventures relationships, as legitimate or illegitimate. This element is crucial as it not only helps firms formulate their *business* strategy, by determining whether and which MNCs are 'legitimate' and could serve as valuable partners; it also underpins their *political* strategies, by determining which domestic firms and practices are legitimized or delegitimized in the policy arena. Cognitive and cultural schemas thus underpin strategic practice *and* political engagement, and hence inter-firm contestation in the both the market and policy domains.

Much of the political contestation observed in markets reflects economic actors competing to legitimize themselves and their activities, practices and strategies in the eyes of the state and wider public as a means of gaining access to valuable resources. This not only means self-promotion, it is a competitive process that requires efforts to delegitimize others in the policy domain. This is a crucial element of socio-political contestation, albeit an area where economic sociologists have paid less attention (Fligstein, 1990). The state thus serves as the domain of political contestation. This approach allows us to make sense of what would otherwise seem to be idiosyncratic fluctuations in policy, which in the political economy literature is too often unhelpfully ascribed to 'competing interests' and 'the push and pull of politics'.

The cognitive and cultural categories of capitalist legitimacy are summarized in the table below and expansively elaborated in the analysis in the rest of this chapter. Crucially, each of these categories is underpinned by a set of causal ideas that rationalizes the

business practice, but this idea is imbued with historically salient social meaning that accords or denies legitimacy.

Cognitive and Cultural Categories of Capitalist Legitimacy in India (1870-2012)

Illegitimate Indian economic actors <i>Traditional: 'bazaar traders and speculators'</i>	Legitimate Indian economic actors <i>Modern: 'captains of industry'</i>
Illegitimate foreign economic actors <i>Traditional: 'neo-imperial instruments'</i>	Legitimate foreign economic actors <i>Modern: 'technology providers'</i>

1. Illegitimate Indian economic actors
 - a. These economic actors are characterized by 'traditional' business practices that are oriented towards short-term profit gains from trading, speculation and money lending. They do not invest in legitimate long-term economic activities such as manufacturing industry that contribute to national development; instead, they profit from economic activities that keep the Indian economy trapped in underdevelopment and backwardness. They do not partner with foreign firms as a means of long-term technological learning and upgrading, but rather as a short-term speculative profit opportunity.
2. Illegitimate foreign economic actors
 - a. These economic actors are characterized by 'traditional' business practices that are neo-imperialist. In the late colonial period they focus on commercial trade in overseas imports rather than investing in local manufacturing. The East India Company is the exemplar. In the contemporary period they reflect multinational companies that displace local firms through unethical business practices and market power. They contribute to the subjugation of India in the global economy.
3. Legitimate Indian economic actors
 - a. These 'modern' economic actors are 'captains of industry' that strive to develop new manufacturing industry that contribute to national development. They heroically persevere in the face of adversity from colonial authorities or powerful multinationals and contribute to India's economic advancement. They seek productive collaborations with foreign firms to gain access to new technologies. The Tata Group is an exemplar.
4. Legitimate foreign economic actors
 - a. These 'modern' economic actors develop technology-intensive industries in India that provide a multiple benefits to a wide variety of domestic actors: high wage skilled labor, technology transfer to local firms and financial support to the balance of payments. They are willing to collaborate with Indian firms, hire local managers and ultimately contribute to the industrialization and 'modernization' of the Indian economy.

The next section shows that preferences towards domestic and foreign capital depends on the extent to which these actors are categorized as 'traditional' or 'modern', that is, as regressive agents or forces of social and economic progress. Business actors thus fight to present themselves in a form that the state considers modern and progressive while often painting their opponents and their business practices as traditional and backward. Political actors similarly compete to define the social meaning of 'traditional' and 'modern' and thus to legitimize the actors they believe will best achieve the development goals of the nation. The outcome is thus agency and contestation over FDI rules. The

brief historical narrative in the next section illustrates this link between cognition and meaning-making through classifications of legitimate and illegitimate capitalists that came to the fore at crucial moments of Indian economic history, particularly during attempts by the state to impose new institutions. It provides the empirical and theoretical frame for the discussion of the liberalization period that begins in Section III.

III. The Acceleration of FDI Liberalization (1991-1998)

The previous section reiterated the theoretical argument that actors make sense of their environment through cognitive and cultural categories of capitalist legitimacy. The table above summarized these categories that were developed over the course of the historical narrative of Chapters Three through Seven. It provides an empirical and analytical framework to assess the current period of economic liberalization (1991-2012). The deeply institutionalized cognitive and cultural categories of the late colonial and early independence periods -- and the legitimizing and delegitimizing social meanings, cultural symbols and tropes that structure them -- persist into the current period of economic liberalization. Crucially, they play a central role in shaping preferences towards foreign direct investment by imbuing the rationalized causal ideas that underpin the economic reforms with historically salient social meaning. This generates enthralling policy contests over FDI rules between competing economic actors.

Finance Minister Manmohan Singh's famous July 1991 announcement of a massive acceleration of economic reforms saw the removal of the Foreign Exchange Regulation Act (FERA) that previously capped foreign equity participation at 40%. The new rules allowed up to 51% foreign equity participation in 35 'high priority' industries. Crucially, prioritization was accorded to industries where foreign technology was deemed necessary for increasing the competitiveness of Indian industry, reflecting the salient social meaning of 'technology' as a cultural symbol and, as Chapter Two argued, a 'black box'

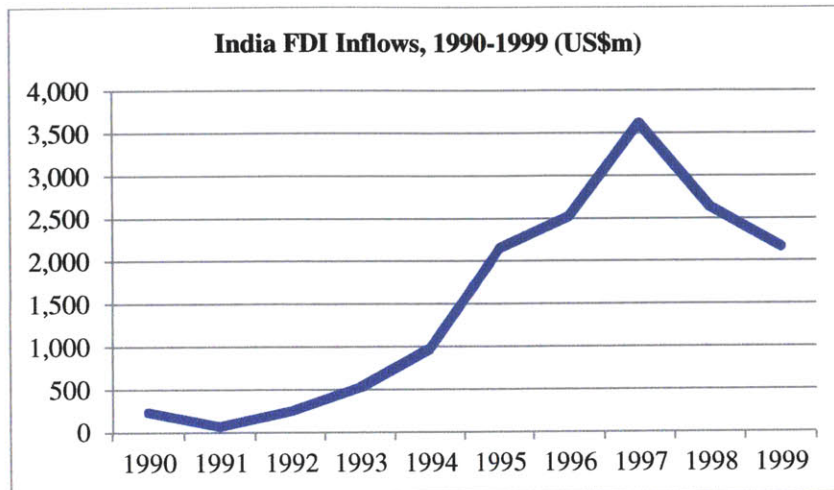
that serves as a vessel for politics.⁵ However, while this entailed significant liberalization of foreign direct investment by allowing multinational corporations unprecedented access to the Indian economy the equity cap meant that MNCs could only enter India through joint ventures with domestic firms. This would lay the foundation for massive tension and contestation between and among foreign and domestic firms over the next two decades. These conflicts occur at both the organizational and wider institutional level, underpinning the importance of a theoretical and analytic approach that bridges these levels of analysis. This is a central contribution this dissertation aims to make to political economy.

Domestic and Foreign Firm Reactions to India's FDI Reforms

The FDI reforms triggered a feeding frenzy as MNCs flooded into India, attracted by the promise of a 250 million strong 'aspirational consumerist' Indian middle class.⁶ This group was expected to devour the foreign products that they had long been denied by the import substituting license-quota-permit raj. This was aptly reflected in the rate of FDI inflows, which rose rapidly from a mere \$75 million in 1991 during the macroeconomic crisis, to \$974m in 1993 before ultimately peaking at \$3.6 billion in 1997 when the Asian Financial Crisis struck.

⁵ Science and Technology Studies (STS) scholars would further suggest that this reflects the analytic utility of interrogating the socio-politics of 'technology' in the Indian "socio-technical imaginary" (Jasanoff et al 2007; Jasanoff and Kim, 2009)

⁶ Most FDI at this time was market-seeking rather than resource or efficiency-seeking i.e. entering India to take advantage of the growing domestic market rather than using India as an export platform or resource extraction. This strategy was shaped in part by the mode of liberalization, which was not only phased with respect to FDI entry, but also to trade liberalization. India's tariff and non-tariff barriers thus precluded a pure export strategy. This is an important contrast with China, which also had heavy restrictions on FDI that mandated joint ventures as a means of facilitating technology transfer to domestic firms, but nevertheless heavily promoted exports, particularly through special economic zones (SEZs) located in the South-eastern provinces, as was being pursued in China at the same time, by contrast.



It is important to understand the mood of the time.⁷ This was a period of tremendous global economic optimism, not only for the Indian government, business and wider public but also for multinational firms. From the MNC perspective the early 1990s marked a peak in the euphoria around ‘globalization’, a brave new era when the entire world market seemed to be opening up due to the now-familiar combinational of technological and regulatory developments that transformed global markets and systems of production.⁸ In contrast to the 1950s and 1960s when developing countries were generally resistant to MNC entry as described in Chapter Six and classically represented in Raymond Vernon’s (1977) *Storm Over the Multinationals*, the new economic mantra was attracting foreign investment and ‘allowing markets to work’ as the means of achieving development goals. Latin American countries were going through massive IMF-led structural adjustment and market opening following the debt crisis of the early 1980s, the Soviet Union collapsed in 1989, and the ‘shock therapy’ market reforms that afforded MNCs immediate access to many potentially lucrative ex-Soviet markets were already underway. Further, the Gulf War was ending and the internet-fuelled economic boom of the 1990s was a welcome relief after the 1991 US recession. This underpinned the enthusiasm and high expectations with which many foreign firms entered the massive Indian market. Not only was India one of the last major economies to open after forty

⁷ Consideration of the affective mood that prevailed is crucial given the theoretical and analytic focus on the rationalized causal ideas and salient social meanings through which actors interpret the complexities of their institutional environment.

⁸ [This was before the East Asian Crisis revealed the dangers of deep inter-connections as well as before the backlash against globalization exemplified by the Seattle protests at the WTO meeting in 1999, and MNC-led labor abuses of the late 2000s.]

years of restrictive policies since the 1951 Industrial Policy Resolution, it also offered a total market size of a close to one billion people. Liberalization was a potential bonanza.

Multinational corporations were not alone in their optimism. Indian capital was similarly seized by the new possibilities that the reforms represented. Many Indian business actors felt liberated from the decades of stringent controls under the license-quota-permit raj. The government was finally lifting the raft of regulations that had shackled Indian private capital since the imposition of the licensing regime in 1951. Even though internal liberalization had been underway for the past decade, the stagnation of reforms and somber political mood of the late 1980s following the Bofors arms deal scandal that engulfed the Rajiv Gandhi regime led many to fear a relapse to suffocating controls. Chapter Seven illustrated how Rajiv Gandhi's youthful internationalism embodied the early reforms and empowered Indians with a vision of new possibilities. However, with the scandal, electoral loss and ultimately assassination the prospects of 'taking India into the twenty-first century' seemed forever lost. Instead, the new Narasimha Rao government shocked the entire country with the announcement of a massive wave of economic reforms that dwarfed the efforts of the previous Gandhi administrations. India was finally shedding its insular and autarchic legacy and moving towards renewed engagement with the global economy.

The institutional form that the reforms took was a crucial factor in the domestic firm response. While MNCs could only enter India through partnerships with local firms, industry-level delicensing meant that for the first time, Indian companies were free to enter almost any industry of their choice. They had the option to partner with foreign firms if believed it was beneficial but there were no regulatory requirements. This was significantly different from the limited liberalization in the early 1980s that was analyzed in Chapter Seven. While industrial license allocation was expanded under Indira and Rajiv Gandhi, licenses were still required for market entry and the likelihood of an Indian firm's application being accepted was greatly enhanced by having a foreign technology partner. In this respect, alliances were effectively required. By contrast, post-1991 market entry was free for domestic firms. The crucial question thus became Indian firms'

preferences towards FDI: would they opt to partner with MNCs or enter new industries on their own? What causal ideas would guide their strategies and practices? How would this affect their political behavior in shaping the policy rules that govern these relationships?

The Rationalized Causal Ideas of Joint Venture Formation:

The Implications of Phased Liberalization for 'Learning Races'

The rationale of the reforms for Indian business and state actors was the technology-for-markets bargain that is familiar from management theory and international economics (Fagre and Wells, 1983; Kobrin, 1987; Kogut, 1988; Ramamurti, 2001; Luo, 2001).⁹ In addition to hard currency finance, MNCs can provide modern production technologies and managerial practices. These are expected to provide broad-based distributional benefits through a variety of spillover effects. For domestic firms, preferences towards FDI are shaped by the prospect of capturing spillovers a number of mechanisms including demonstration effects, participation in buyer-supplier relationships and skilled labor mobility. However, economic actors recognize that there is significant uncertainty in the ability to benefit from the mere presence of MNCs in the economy. Joint ventures are a rationalized option as they represent an organizational mechanism to reduce the uncertainty of technological and organizational learning and maximize the benefits of spillover effects.

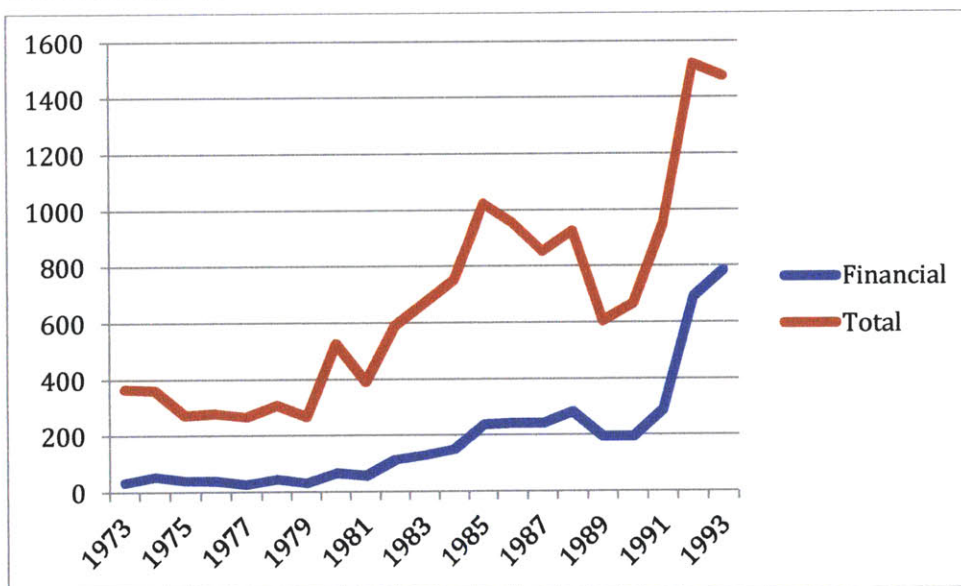
The strategic choice to partner with multinational firms was thus consistent with the rationalized causal relationship that posited multinationals as sources of tacit knowledge, technology, and finance, all of which were scarce resources for Indian firms. This view further held that Indian business groups, long shackled by the restrictive industrial licensing regime described in Chapter Seven, could gain necessary new capabilities from MNC partners to enter additional areas of production and even attain competitiveness in the global economy. This has two crucial elements. First, Indian groups could partner

⁹ A similar belief motivated Indian firms to enter joint ventures in the immediate post-independence periods of the 1950s-60, as illustrated in Chapter Six through comparative analysis with Brazil. There are other theoretical arguments for the existence of joint ventures that go beyond the resource-based and organizational learning perspectives (Barney, 1991; Inkpen, 2000; Cohen and Levinthal, 1990), such as transactions costs approaches (Williamson, 1975, 1985; Henisz, 2000).

with multinationals in their existing areas of activity in order to upgrade their capabilities and more effectively navigate an increasingly competitive market environment. Firms could also utilize the joint venture mechanism as a strategy for entering new areas of production where they may have little prior experience, a mode of corporate expansion through unrelated diversification that was facilitated by the institutions of the ubiquitous pyramidal family-controlled business group (Amsden, 2001; Schneider, 2009). Both of these causal ideas were based on organizational-level upgrading by Indian firms, and thus were deemed legitimate in the eyes of the Indian state seeking increased industrial growth.

In line with these rationales, the immediate liberalization period saw a spike in joint venture formation that was led by India's largest business groups, as the chart and table below show:

The Growing Importance of Financial and Technical Collaborations (1973-93)



Source: Table 1, ISID, 1994

Distribution of Approved Technical Collaborations among the Large Business Groups (1993)

Business Group	Technical Collaborations
Tata	62
Birla	45
Larsen and Toubro	22
Reliance	21
Kirloskar	14
Ranbaxy	14
Goenka	12
Modi	12
Escorts	10
Chidambaram	10
Mafatlal	10
Shri Ram	10
Thapar	10

Source: Table 11, ISID, 1994

However, despite this rush to form joint ventures, there is an inherent tension between cooperation and competition in the rationale of these technology-for-markets arrangements. Foreign firms may not only form joint ventures for regulatory compliance, but also as a strategy to learn from their domestic partners and reduce the 'liability of foreignness' (Zaheer, 1995). MNCs seek to take advantage of their partners' market knowledge of local preferences and tastes, established distribution networks and critically, political connections (Hamel, 1991; Henisz, 2000). These hybrid organizations are thus dynamic and unstable as both the management literature (Inkpen, 1997) and interviews and public statements from Indian and MNC joint venture partners confirm. Crucially, both sets of actors are cognizant that collaboration may well turn to competition given the asymmetric rate of internalization of partner capabilities. This inherent instability creates a 'learning race': the pressure is on to extract resources from the partnership that each firm considers would make it a success while preparing to compete directly with the partner in the not-too-distant future (Hamel, 1991). This tension is further heightened in institutional contexts like India where joint venture formation was policy induced through enforced equity caps on MNC entry. This creates additional *policy* uncertainty about when the FDI caps may be raised. This was the scenario in post-1991 India where FDI liberalization was phased. This recognition of the dynamic and unstable nature of these hybrid organizations and the regulations that

mandate them generates environmental complexity and facilitates massive conflict and contestation over the *rules* that should govern these arrangements, as the upcoming sections will show.

Finally, while the rationalized technology-for-markets rationale outlined above represented the legitimate approach to joint ventures for Indian firms, it is important to note that many observers cite the existence of a competing albeit *illegitimate* rationale that was held to underpin joint venture strategies and practices of many Indian groups. This delegitimized view reflects the category of Indian business actors who were “mere traders” simply “along for the ride” that the interviewee in the previous section suggested. Given the requirement that MNCs enter with Indian partners, as well as the previous 1974 FERA regime that forced MNCs to divest to maximum 40% holdings, many Indian firms were engaged in joint ventures merely as ‘sleeping partners’. This ‘financial’ as opposed to ‘technological’ rationale of joint venture partnering is reminiscent of the delegitimized ‘orientation’ of many of the emerging Indian capitalists who were castigated by the early Indian nationalists at the turn of the twentieth century and later by Commerce Minister TT Krishnamachari in the 1950s. Just as Indian economic actors seized the opportunity to gain control of manufacturing firms as the British managing agencies disinvested their Indian holdings -- albeit for all the ‘wrong’ reasons by stripping these industrial assets to engage in speculative and moneylending activities in the non-industrial sector -- so too were modern day Indian groups seen as mere speculators through their financial investments in FERA firms. These practices were seen as incommensurate with the behavior of ‘true’ industrialists seeking to build manufacturing capabilities for global competitiveness.

This interpretation of some Indian business groups’ ‘financial’ rationale delegitimized their perceived strategies and practices and became a focal point of conflicts over MNC entry. Crucially, from the policymaker’s point of view the legitimate causal economic rationale of phased FDI liberalization was supporting technology transfer to Indian firms while facilitating broader expansion of the industrial sector, not facilitating joint venture formation as speculative financial investments. Thus the government’s approach to FDI

liberalization would only be deemed successful insofar as domestic *and* foreign played their required roles: legitimate MNCs providing technology through policy-induced joint ventures and legitimate Indian firms making efforts to absorb these technologies, improve their capabilities and expand their scale and scope of production. These are illustrated below, with the arrows depicting key axes of contestation.

Competing Causal Ideas & Categories of Capitalist Legitimacy in India (1991-2012)

Illegitimate Indian economic actors <i>Rationale: enter JVs as financial investment</i> <i>Traditional: 'traders' and 'speculators'</i>	Legitimate Indian economic actors <i>Rationale: enter JVs for technological learning</i> <i>Modern: 'captains of industry'</i>
Illegitimate foreign economic actors <i>Rationale: learning race</i> <i>Traditional: 'neo-imperial instruments'; unethical partners that withhold technologies</i>	Legitimate 'Western Economic Man' <i>Rationale: JVs as mutually beneficial exchange</i> <i>Modern: ethical JV partners and technology providers</i>

These competing causal ideas lay at the crux of tension and contestation over FDI rules and joint ventures that emerged in the arena of business politics. The arrows in the table indicate the dimensions of conflict between and among domestic and foreign firms. The existence of multiple causal ideas contributes to environmental complexity (Battilana and Dorada, 2010). This poses a challenge for decision-making: in the context of environmental complexity, how might policymakers who set the rules that govern FDI and joint ventures differentiate between these causal ideas? The socially and historically embedded factors that shape the cultural characterizations of economic actors as 'legitimate' and 'illegitimate' were essential to the interpretive frames that actors used to make sense of the complexity of the institutional environment. Competing causal ideas were deployed in political contestation that emerged around FDI and joint ventures, but these rationalized causal ideas were indeterminate for shaping actors preferences towards FDI. As the next section shows, a crucial element lay in how firms represented themselves and their counterparts as legitimate or illegitimate economic actors in the realm of policy contestation.

V. FDI Liberalization and Capitalist Backlash: The Bombay Club, ‘Cowboy MNCs’ and ‘One Night Stands’

On an otherwise average afternoon in Bombay’s posh Oberoi Hotel, few paid much attention as one of India’s leading businessmen entered and walked briskly towards a private room in the Belvedere Club. However, heads began to turn as one after the other, heads of India’s most powerful business groups walked into the hotel and headed for the same room. This group of business actors included Nusil Wadia, Hari Shankar Singhanian, Bharat Ram of DCM, L.M. Thapar, M.V. Arunachalam, Rahul Bajaj, B.K. Modi, C.K. Birla and Jamshed Godrej amongst others.¹⁰ The venerable family-controlled pyramidal business groups that these actors represented all pre-dated independence and emerged from the ISI period amongst the top ten in India (see table below). The group met informally to discuss a variety of issues arising from the reforms. Topping the list was the complaint that Indian and multinational firms were not competing on a “level playing field”, a term that would become a powerful cultural symbol in the FDI debates. These leading Indian businessmen argued that MNCs enjoyed numerous competitive advantages relative to their domestic counterparts. These included lower costs of capital as Indian firms faced onerous domestic borrowing rates as high as 21% and, due to Indian financial market regulations, could not access international capital markets on similar terms as MNCs. Indian business further argued that their manufacturing capabilities had been stunted by decades of under the repressive license-quota-permit raj. Contrary to critics who labeled these groups bloated beneficiaries of the protective regime, ‘Bombay Club’ capitalists argued that in fact the license raj limited their ability to upgrade production capabilities in the post-independence period thus impeding their ability compete on even terms with their foreign counterparts now that the government was opening the market. Indian capital thus claimed to have been *harm*ed by important substitution rather than helped by protection. After long consultations amongst themselves – and eventual discovery by journalist Sucheta Dalal who dubbed the group the ‘Bombay Club’ -- the group prepared a briefing note outlining their position and

¹⁰ These meetings have been documented in numerous press article. See for example Outlook and Singhanian’s own article “A Milestone reached, an agenda unfinished”.

presented it to then Finance Minister Manmohan Singh on November 10, 1993. The note was released to the press after the meeting in New Delhi, sparking a vigorous debate in the public realm.

Assets of Select Large Indian and Foreign Business Groups (1989-1990)¹¹

Rank	Group/Family	Assets (R. Crores)
1	Birla	7,235
2	Tata	6,851
3	Reliance (Ambani)	3,241
4	Singhania	1,938
5	Thapar	1,782
7	Bajaj	1,228
9	Laursen and Toubro	1,130
11	T.V.S. Iyengar	929
12	Uni Lever (MNC)	925
21	Mahindra & Mahindra	620
22	Goenka	570

The Bombay Club's note sought to legitimize their complaints by asserting their global ambitions: "The aim of Indian industry is to be as competitive as any of its peers in the world. Its vision is that *it becomes multinational*, in fact a *world player*." The note further suggested that in order to achieve this goal the range of economic reforms must be widened and its pace accelerated. However, with respect to competition in the domestic market and the liberalisation [*sic*] of FDI, the note urged the government to strengthen Indian enterprises "to enable them to play their *rightful role* in the industrial development of the country." To do so, it argued that "Indian industry needs a *conducive environment* that allows it to raise resources competitively, and which addresses itself to *the issue of stake-holding*, so that there is an additional incentive for growth and capital formation".¹² One of the main members of the groups Hari Shankar Singhania later justified the

¹¹ Mazumdar, 2010, table 4. One crore = 10,000,000 rupees. Not all of these groups were members of the Bombay Club.

¹² Hari Shankar Singhania: "A milestone reached, an agenda unfinished", *Hindu Business Standard*, April 24, 2011
<http://www.business-standard.com/india/news/hari-shankar-singhani-milestone-reached-an-agenda-unfinished/433280/>

Bombay Club reaction by arguing that “Indian entrepreneurs [represented by the old business houses] have been working relentlessly over the years against all odds — pre-independence, immediately after independence and post-reform — towards achieving the aim of making the Indian economy stronger and ushering in a welfare society.”¹³ These were clear efforts to project a self-image as legitimate ‘captains of industry’.

This was a powerful public statement that the Indian state and public could not ignore. However, given the existence of competing causal ideas and representations of ‘old protected traders’ versus ‘modern captains of industry’ it was initially unclear how observers would interpret the claims of these leading business groups. The affective response in India was heightened by a spate of high profile takeovers and proponents of a symbolic ‘level playing field’ for Indian firms cited an increasing number of high profile cases of MNCs ‘unfairly’ displacing successful Indian firms. The most famous was Coca-Cola’s purchase of Parle, the hugely successful maker of the “Thums Up!” brand of cola that, ironically, had risen to dominate the Indian market after Coca-Cola was infamously ‘kicked out’ in the 1970s when the Foreign Exchange Regulation Act (FERA) was first passed. Coca-Cola returned to India in 1992 in partnership with the confectionary giant Britannia but soon began to pressure Parle owners Ramesh and Prakash Chauhan to sell their stake in the firm. Neville Isdell, then Coke’s lead executive in India and later Chairman and CEO of the firm, recalled that younger brother Prakash was in favor of the sale, revealing his fears for Thums Up’s continued competitiveness with the entry of Coke and Pepsi: Prakash reportedly told Coca-Cola’s marketing manager ‘*When elephants fight, the grass gets trampled!*’¹⁴ By contrast Ramesh was reluctant to “relinquish the title of India’s soft drink king” but “Ramesh finally relented, but not happily. He and his wife “sobbed at the contract signing in Atlanta” (Isdell and Beasley, 2011:146).

Coca-Cola’s paid US\$60 million for Parle, widely considered a pittance given Thums Up’s massive popularity and dominant 60% market share. Coca-Cola’s intention was to

¹³ Ibid, Singhanian, 2011.

¹⁴ Prakash Chauhan believed that Parle would be unable to compete with Coca-Cola’s seemingly endless resources, a belief that received wide credence as disparities in lending rates to which Indian firms and MNCs had access, as the Bombay Club and Tarun Das argued.

buy Thums Up and then kill the brand in order to promote other lines in its product portfolio, a common corporate strategy employed by deep-pocketed consumer goods firms to establish market power.¹⁵ However, upon purchasing Thums Up! Coca Cola found that consumer tastes had evolved during its enforced absence such that Indians preferred the flavor of the local Thum's Up! brand to the classic American beverage. In order to compete with Pepsi, Coke was forced to resurrect the Thums Up brand and return it to the product lineup, where Thums Up! proceeded to outsell Coke by to 3:1. It seemed that the grass might have been able to survive the elephants' feet after all.¹⁶

The irony of Coke being 'kicked out' of India for failing to share its 'technology' as captured in the 'secret ingredient' and returning to buy out the very firm that rose to take its place by developing its own apparently superior 'technology' was not lost on Indian business, government and the wider public. The sale of Parle in November duly marked the deepening of the domestic reaction to FDI reforms. Crucially, the Coke-Parle case would serve as a powerful example of MNCs using their financial muscle to displace successful domestic firms, hence fitting into the historically salient cultural category of MNCs as illegitimate neo-imperial instruments.¹⁷

Despite recognition of this growing political backlash from India's leading industrialists and a growing challenge from a newly consolidating political rival the Hindu-nationalist Bharatiya Janata Party (BJP), the Congress nevertheless pushed ahead with the reforms. In 1996, the 'automatic approval' route for FDI was significantly expanded and foreign

¹⁵ Interestingly, consumer tastes had evolved during its enforced absence such that flavor of the Thum's Up! was preferred to Coke. In fact, in order to compete with Pepsi Coke later resurrected the Thums Up brand.

¹⁶ This surprising market development raised the issue of Indian capitalists 'self-confidence', an issue that would become increasingly salient in the 2000s. In the Parle case, it begged the question of why the Chauhan brothers didn't try to compete with Coke and Pepsi. More substantively, was this the way that 'true' captains of industry would be expected to behave? Would they exit the market or remain in business and try to compete? Were the Chauhans 'true' industrialists or mere banias, junior partners that facilitated extractive merchant trade? How should they be categorized?

¹⁷ This view was only deepened by the widely held belief that Coke paid massive bribes to re-enter India as a wholly owned subsidiary when the 51% FDI cap still stood. My interview with the lobbyist that famously represented Coke did little to dispel this view. Further, the categorization of Coke and its return to India was further strengthened as it did so without making any clear legitimacy-enhancing contribution to the Indian economy in terms of technology, new products, etc., and as such were analogous to the British managing agencies of the colonial era and exemplified by the East India Company.

equity caps were raised.¹⁸ This removed the regulatory requirement that forced MNCs to enter India as minority joint ventures partners; they could now launch new firms with majority equity ownership or dispense with the need for local Indian partners altogether through wholly owned subsidiaries.

Crucially, this also meant that many MNCs in existing partnerships with Indian firms no longer needed to remain with their local partners for regulatory purposes: they were now free to exit these partnerships and strike out on their own if they so desired. MNCs strategic decision-making was, of course, also dependent on its own rationalized causal beliefs. The decision would depend on whether the benefit of having a local partner to navigate the Indian environment was perceived to outweigh the advantages of complete managerial control. This raised the 'dynamic learning race' tension in the joint venture rationale discussed in the previous section (Hamel, 1991). This new round of phased liberalization dramatically altered the institutional environment for MNCs and local firms. Indian firms faced the prospect of direct competition with MNCs for the first time in decades. Ultimately the deepening of the liberalization process significantly shifted the balance of power in many joint venture relationships towards the foreign partner.

The Capitalist Backlash Intensifies: 'Cowboy' MNCs and 'One night stands'

The debate heightened dramatically on March 19, 1996 when Tarun Das, Director-General of the Confederation of Indian Industries (CII) made a speech entitled 'MNC Strategy Needs Rethinking' that shook the Indian business world. In his speech, Das championed the cause of domestic firms against the "cowboy tactics" of multinational firms, a thinly veiled reference to American firms. Das asserted that MNCs had no real interest in mutually beneficial cooperation with their domestic partners implying that they just saw them as "one night stands".¹⁹ According to Das, the MNC strategy was

¹⁸ Automatic approval was widened from 35 to 111 industries and foreign equity caps raised under four distinct categories: Part A—up to 50%, Part B—up to 51%, Part C—up to 74%, and Part D—up to 100%. See appendix for details. This industry-level variation in liberalization provides scope for exploitation in future analysis.

¹⁹ Media reports suggest that the impetus for this strongly worded reaction from Tarun Das, head of the Confederation of Indian Industry, arose from powerful council members representing firms in technology-intensive electronics, autos and consumer goods industries. The timing was also noteworthy, as the statement was made during the run-up to a general election, as will be discussed momentarily. See Javed

increasingly to take advantage of the liberalized FDI rules to neglect existing joint ventures, to which the MNC has only shared 'obsolete' technologies, while launching new firms operating in the same field as wholly owned subsidiaries. Unencumbered by their old Indian partner and having gained knowledge of the Indian market and institutional environment, the new MNC subsidiary would be endowed with greater financial and technological resources and proceed to outcompete the abandoned joint venture, thus destroying the value of the Indian partners' investment. MNCs were thus portrayed as rapacious neo-imperial instruments reminiscent of the British managing agencies and the East India Company.

Das detailed his complaints by identifying a several "trends" that can be grouped into two related sets of concerns with MNCs. First, their general approach to entry into the Indian market; and second, their unethical behavior towards their Indian JV partners. The first set of concerns speaks directly to the distinctions between 'trading' versus 'manufacturing' business practices, 'short-term speculative' versus 'long-term' strategies and 'orientations', and finally the powerful social meaning of 'technology' that this dissertation has argued characterized the politics of industrialization since the late nineteenth century. According to Das:

The first trend is **the sales approach** towards India as **distinct from manufacturing**...to access the market **through minimum production on the ground and maximum production at home**, wherever that is. A byproduct of this approach is to rely on continued import of components rather than **India-made components and parts**. The second trend is **focusing on the short-term rather than the long-term**. Strategy seems to be to generate profits quickly rather than go for the long haul, be patient, stay in India and build credibility as a steady process. The third is to bring in technology and products which are being phased out in the home country of the MNC. Not to bring in **state-of-art technology** or the most **modern** products.²⁰

This was a powerful political statement that skillfully deployed historically salient cultural symbols, narrative and tropes to characterize MNCs as rapacious and abusive neo-imperial instruments with little interest in furthering Indian development. The core of his arguments is practically indistinguishable from the 'drain theory' that Dadabhai Naoroji and R.C. Dutt deployed in the period 1870-1900 (cf. Chapter Two). The behavior

Syed, "Tarun Das Breathes Fire on MNC Entrants One-Night Stand", *Economic Times*, 20 March 1996.

²⁰ Das, Tarun "MNC Strategy Needs a Rethink," Text of Press Briefing, March 20, 1996.

of contemporary MNCs was akin to the short-term and exploitative ‘trading’ orientation of the British managing agencies and the East India Company, particularly with respect to the preference for production abroad rather than in India. Das’ framing was crucial as he represented MNCs as bad for India writ large, not just Indian capitalists. As Dobbin (2004) argues, this follows Marx’s view of capitalists as representing their interests as not just good for them, but good for society writ large (Roy, 1997). Das continued by outlining a further set of ‘trends’ that directly addressed unethical behavior in MNC-domestic firm joint venture relationships:

The fourth is to leverage an Indian partner to get into India on a 50/50 or 40/40 basis, to get sanctions and approval quickly and then having reached a certain minimum level of comfort in India, **to want to move quickly to 51% equity holding**. Another trend is that **inspite [sic] of having a Joint Venture company with an Indian partner, the MNC sets up a 100% subsidiary without any partner and where it has total control...** Another trend is the “Cowboy” approach of landing in India, hastily choosing a partner, making a mistake and then **wanting to break the relationship**.²¹

These arguments were highly salient as they hearkened back to the abuses Indian firms suffered at the hand of the East India Company and British managing agencies in the late 19th and early 20th centuries through business practices that were legitimized by the colonial state under the guise of ‘free trade’ and used to dominant the Indian market. The claims of contemporary Indian actors thus had deep resonance in the Indian social memory: imperialist British managing agencies had been replaced by neo-imperial MNCs exploiting the unfair rules of globalization. Das further cited the trend of MNCs ignoring competent Indian managers to hire expatriates who have “little understanding of India, Indian culture, Indian ethos, Indian Government or Indian Industry.” Once again, these were precisely the business practices of the most hardline British managing agencies who refused to change their hiring practices even well into the twentieth century when well-qualified Indian managers were in abundance (Misra, 1999). Just as the managing agencies then defended their decision by citing weaknesses in the “character” of Indian managers (Misra, 1999), so did Das argue, the “*Orientation* [of these expat managers] *at best is inadequate*.”²² Cultural discourse, symbols and tropes are powerful tools of capitalist contestation for both Indian and foreign economic actors (Swidler, 1986).

²¹ Ibid, Das (1996).

²² Ibid, Das (1996).

Das' claims of unfair MNC business practices were taken seriously, not least because the CII was considered the most 'forward looking' Indian industry association (Kochanek 1996; Pederson, 2000; Sinha, 2005; Kantha and Roy, 2006). This speaks to the importance of identity in establishing capitalist legitimacy. CII's membership was heavily drawn from the 'modern' technology-intensive engineering industries such as electronics and automobiles that were generally considered, 'outward oriented', 'sunrise' industries and beneficiaries of the reforms. In this respect the CII stood in stark contrast to its main rival FICCI, whose members were considered representatives of the 'traditional' commercial trading groups and 'sunset' industries (Kochanek, 1996).²³ Further, the large business groups in FICCI were seen as disproportionately controlled by socially conservative Marwaris, who rose in Calcutta in the late colonial period by leveraging capital from illegitimate and comprador trading and rapacious moneylending activities and using it to purchase profitable industrial concerns. This is precisely the caste-based community of economic actors that Chapter Four argued were delegitimized as economic actors with 'traditional' orientations who engaged in economic practices that were speculative, focused on short-term profits, and based in trading rather than legitimate manufacturing activities. Chapter Seven showed how these caste-based cultural tropes retained their social meaning through the import substitution period, and as this chapter will argue they played a powerful role in shaping the interpretive frames that governed the terrain of contestation over FDI liberalization. Any doubts about whether these cultural tropes retained salience in the liberalization era were put to bed by interviewees, such as a former business press editor who dismissively referred to FICCI

²³ Members of the 'Bombay Club' were somewhat more difficult to categorize. On one hand they were drawn from old business groups that were seen as beneficiaries of the import substituting license-quota-permit raj. On the other hand, they included groups in both low and high technology industries, such as Bajaj and Mahindra and Mahindra. This reflects the complexities and fragmentation in the process of schema construction and categorization that DiMaggio (1997) and Zerubavel (1997) identify. Further, many of the Bombay Club members such as Rahul Bajaj and Hari Shankar Singhania were Marwaris, and the vocal and opinionated Bajaj was seen as the group's Bombay Club. However, Bajaj was also perhaps the most powerful actor in the CII. This reflects the contradictions inherent in cognitive and cultural categories and schemas. However, rather than reducing the utility of schemas as interpretative frames that actors utilize to make sense of their institutional environment, these contradictions provide opportunities and footholds for contestation through the development and deployment of competing representations.

members as “traders” and “milk vendors.”²⁴ CII ‘industrialists’, by contrast, came from different geographic regions, particularly from the West and the South, and diverse ethno-linguistic communities that had long been seen as more socially ‘progressive’ relative to the dominant Marwari community. They were also seen as better educated, many having obtained degrees in science and engineering fields overseas. These factors accorded Tarun Das and the CII significant legitimacy in stating their anti-MNC claims.

While Tarun Das’s ‘outburst’ surprised many given CII’s ‘forward looking’ image, the reaction shocked some political observers and the press as the CII was closely associated with the ruling Congress Party. Das enjoyed a close relationship with senior ‘reformist’ bureaucrats and Congress officials such as Principal Secretary A.N. Varma and Finance Secretary Montek Singh Ahluwalia, and the CII often referred to itself as a ‘junior partner’ of the government in the press and its own official history (Kantha and Roy, 2006).²⁵ The CII-Congress Party were so closely aligned with the Congress that the 1992 budget was often considered ‘the Tarun Das budget’ based on rumors of his close participation in its design. This apparent contradiction raised immediate questions about the strategic political motive of Das’ anti-MNC remarks in the Indian business press:

Das' close friends, Finance Secretary Montek Singh Ahluwalia and Principal Secretary in the Prime Minister's Office A.N. Verma, were shell-shocked by the salvo. Congress leaders went into a huddle, debating whether they should incorporate the CII's new-found **love for swadeshi** in the party's election manifesto. It was evident that the CII was pressuring the Congress to take a fresh look at its TNC policy if it returned to power. And making the right noises if the BJP won the elections. Above all, **a band of big Indian industrialists was asking for some form of protection against TNC rivals...**[based on serious accusations that] many recent TNC entrants were in India for short-term 'one-night stands', adopting a marauder-like 'cowboy' approach, palming off obsolete

²⁴ Interview C21, New Delhi, March 2011.

²⁵ The Confederation of Indian Industry (CII) played an important and oft-noted role CII rose to prominence during the reforms, promoting liberalization by proactively engaging with policymakers using well-prepared technical reports, a first in the history of Indian business-government relations. The association’s professional and “modern” approach fit with the views of new reformist bureaucrats, particularly those in the powerful Ministry of Finance led by ex-World Bank economists Manmohan Singh and Montek Singh Ahluwalia (nor Prime Minister and Head of the Planning Commission, respectively). CII seized an opening in the “political opportunity structure”. (Sinha, 2005) The organization grew rapidly from a small engineering association to challenge the historically dominant Federation of Indian Chambers of Commerce and Industry (FICCI) and Association of Indian Chambers of Commerce (Assocham). CII took advantage the government’s new attitude as well as organizational weaknesses arising from infighting within both FICCI and Assocham. (Kochanek, 1996; Sinha, 2005). It quickly became a self-proclaimed “junior partner” to the government (Kochanek, 1996; Sinha, 2005; Pedersen, 2007).

technology and attempting to muscle out their joint venture Indian partners by trying to hike their equity-holding to more than 50 per cent.²⁶

The situation raised both economic and political challenges for Congress officials. How should they interpret this salvo from many of Indian industry's leading lights? What causal ideas might allow them to make sense of this confusing and dramatic development? Were these business actors simply bloated old business groups that were long beneficiaries of protection under the license-quota-permit raj who were not complaining as they faced real competition, or were these domestic firms that were genuinely trying to develop new capabilities and were being abused by neo-imperialist MNCs? This was a situation of severe environmental complexity and uncertainty that highlights the importance of rationalized causal ideas and categorization as cognitive and cultural devices that helped actors make sense of complexity and determine their preferences (DiMaggio, 1997).

Constructing Interpretive Frames under Environmental Complexity:

Ideas, Cognition and Meaning

Rationalized causal ideas are crucial elements of interpretive frames through which actors make sense of the institutional environment, as both the macro-institutional 'ideational' literature in comparative political economy and the micro-organizational literature in economic sociology argue (Hall, 1993, 2005; Blyth, 2002; Dobbin, 2004; Greenwood et al, 2008; Battilana and Dorado, 2010; Thornton, Ocasio and Lounsbury, 2012; Suddaby et al, 2010; Wry et al, 2013). However, this dissertation has stressed that an analysis of the process through which rationalized causal ideas shape actors' preferences and outcomes is insufficient without attention to the social meanings and cultural symbols within which these causal ideas are embedded. First, the issues that Das and the Bombay Club raised during this period of accelerating FDI liberalization (1991-1996) highlighted a well-recognized indeterminacy in economic theories of FDI: does FDI help domestic firms by facilitating technological learning via spillovers (Blomstrom and Kokko, 2003) or hurt domestic firms by displacing them in oligopolistic markets (Amsden and Hikino, 1994)? These represent competing causal ideas that numerous studies in the scholarly and

²⁶ *Outlook India*, 'The Ghost of the Bombay Club'. April 10, 1996.
<http://www.outlookindia.com/printarticle.aspx?201149> Last accessed February 23, 2013.

policy literature have been unable to resolve (Aitken and Harrison, 1999; Gorg and Greenaway, 2004). This dissertation argues that in the context of this indeterminacy, the social meanings with which competing causal ideas are imbued and cultural symbols that are attached play a crucial role in determining which causal ideas ‘prevail’ in policy contestation. This is where cultural categories of capitalist legitimacy play a key role: how does the perceived nature of domestic and foreign firms shape external actors’ interpretations and ultimately their preferences? Should MNCs be seen as neo-imperialist ‘cowboys’ or should the complaints of Indian capital be dismissed as coming from illegitimate economic actors?

Interviews with corporate attorneys at one of India’s leading law firms that represented many MNCs (as well as major Indian groups) in their joint venture disputes and provided further insight to the process:

[Indian partners get squeezed out of JVs with MNCs because of a]...mismatch of capital and expectations...he [the MNC] may be looking at a partner either because he is forced to take a partner because of local regulations or he needs someone to provide him local support...few years down, if relationship is not going well, and regulation changes which permits you to go from 50 to 100 [% equity share]...**you would dump your partner.**²⁷

This would appear to confirm the widely held belief in the use of strong-armed MNC strategies. Nevertheless, stridently pro-reform observers sought to dismiss the charges as coming from old, bloated groups long protected from competition who were now facing the real market competition. One of my interviewees, an ex-senior official in the Finance Ministry in the early 1990s characterized the typical opponents of liberalization as groups like “The Birlas. In general the Marwaris. Who had done extremely well out of the old system.”²⁸ These were the business actors that the ex-business editor interviewee cited earlier identified as “old world businessmen” who were “living off the past”.²⁹

The neoliberal rationale of liberalization suggested that allowing ‘the market’ to work would impose discipline and to ensure optimal welfare outcomes the weakest firms should be allowed to fail. This was the benefit of market reform – to weed out the

²⁷ Interview E12, April 27, 2011 New Delhi. Emphasis added.

²⁸ Interview A9, New Delhi, April 2011.

²⁹ Interview C21, New Delhi, March 2011. FICCI businessmen were specifically singled out.

inefficient firms that had only survived through decades of unproductive rent seeking in the import substituting license-quota-permit raj period. On the other hand, it was difficult to dismiss the anti-MNC charges as many of India's most respected firms seemed to be facing these challenges with foreign firms. Not only was there the salient example of Parle's Thums Up! and Coca-Cola that suggested the existence of real threats in the face of deep-pocketed multinationals, but even India's most illustrious business house, the Tata group, seemed to be caught in a similar bind.

As Chapter Three argued, Tata was synonymous with economic nationalist triumph of Indian firms ever since the launch of Tata Steel in 1907 against the colonial state and British managing agencies. Tata epitomized the 'true' capitalist industrial group, and Chairman Ratan Tata was seen as India's leading 'captain of industry', much like his uncle J.R.D. Tata who consolidated the group's position as India's largest business house in the post-independence period (1938-1991).³⁰ One of Tata's lead group firms, Tata Motors, entered into a joint venture with Daimler in the early 1990s to assemble Mercedes Benz cars. Tata and Daimler had a four-decade long relationship dating back to the early 1950s when Daimler played a key role in providing the technology that allowed Tata to enter commercial vehicle assembly, a segment in which the group was immediately successful and continues to dominate today. Tata's truck manufacturing laid the foundation for the firm's now globally recognized capabilities in the automobile sector that allowed it to produce the first fully indigenously designed passenger car, the Indica, in 1997, and later the now world-renowned 1 lakh (US\$2,000) 'people's' car, the Tata Nano. The corporate attorneys provided further insight to the process through the Tata-Daimler case:

Or secondly, like Tata's case, it came to pumping in more and more capital. And **Tatas [sic] is not a small group**. It's not a small group. **It's in the top three in India**. But beyond a point they say 'how much money can we sink into one car company. We've put in so many hundreds and thousands of crores' I don't know the exact number... 'so many thousands of crores and the last five years we have been running losses.' Because in India, typically you expect if I put in any money today three years later I should be making a profit. Daimler said 'No, we build a market in five years, next five years you start at breaking even, fifteenth year or twelfth year you make a profit'. And Tata was

³⁰ The Tata Group traded the top position with the Birla group in the first few decades after independence, and then with the Reliance Group in more recent years.

like ‘No you didn’t tell me that! [laughing] You never told me on day 1 that I would have to wait 12 years to make my profit [and] until that time I just keep putting more and more money in. that doesn’t work. **So if more money is required you put it. If you put it then I get diluted down.**’ Those have been some of the classic reasons [that JVs go from 50-50 partnerships to majority MNC owned and controlled.]³¹

This case became increasingly common in the mid-late 1990s and had a powerful effect on Indian perceptions of these complex market dynamics. It aligned perfectly with the Bombay Club complaints that MNCs faced lower costs of capital and thus enjoyed an unfair advantage in their partnerships with local firms – an advantage they exploited through unethical business practices of squeeze out local partners by pressing for accelerated investment schedules and when the Indian firm could not respond in kind, buy them out. It also resented with the bullying tactics that Tarun Das’ suggested that MNCs used to displace their local partners. If this could happen to one of the lead firms of the prestigious Tata group that for a hundred years had symbolized the potential of Indian private firms and stood at the vanguard of Indian industry, and with a ‘blue chip’ partner whom they had worked with for close to five decades, what did it mean for smaller Indian firms and their joint venture partnerships?

Categories of Legitimacy in FDI Liberalization Debates (~1991-1998)

	‘Illegitimate’	‘Legitimate’
Indian Economic Actors	<p>‘Backward’ and ‘traditional’ Indian firms that are simply ‘sleeping partners’ in foreign-domestic joint ventures. These actors are simply ‘traders’ and ‘speculators’.</p> <p><i>Ostensible representatives: ‘old’ trading groups from the East. Drawn heavily from the Marwari community. Seen as located primarily in wholesale and retail trade, low-tech manufacturing, etc.</i></p>	<p>‘Forward looking’ and ‘modern’ Indian firms that seek to acquire new capabilities through joint ventures. These are ‘true’ industrialists.</p> <p><i>Ostensible representatives: CII, Das, ‘new’ industrialists from the West, North and South. Drawn from Parsi, Gujarati, and other ethno-linguistic groups. Mid-high technology Auto, Telecommunication, Pharmaceutical like Hero and especially IT firms are the exemplars e.g. Infosys.</i></p>
Foreign Economic Actors	<p>Multinational firms employing ‘cowboy tactics’; push local partners out of joint ventures; refuse to introduce cutting edge technology; only in India for ‘one night stands’.</p> <p><i>Example: Daimler</i></p>	<p>Multinational firms that are willing to introduce new technologies and share them with Indian joint venture partners</p>

³¹ Interview E12, April 27, 2011 New Delhi. Emphasis added.

VI. The Rise of the BJP and the Wider Politics of India's Economic Reforms

These developments in the business sphere were not divorced from wider developments in Indian politics. After all, this was a period of dramatic social and economic change with distributional frictions that were directly reflected in the political realm. The acceleration of external liberalization occurred at a moment when the Congress Party -- which had enjoyed almost complete dominance of Indian politics, ruling all but six of the almost fifty years of Indian independence -- faced a formidable new challenger in the Bharatiya Janata Party (BJP).

Many analysts saw the rapid rise of the BJP in the 1990s as a stunning development in Indian politics given its close links with the militant Hindu nationalist cultural organization Rashtriya Swayamsevak Sangh (RSS), which had long been considered to lie outside of the accepted value structure of Indian politics (Nayer, 2000). The BJP was built on an extremely conservative system of beliefs that rejected "[the longstanding] pseudo-secularism" of elite Indian politics that it held was "designed to appease the [largely Muslim] minorities" (Ibid).³² This was a direct challenge to the Congress' longstanding goals of secular nationalism that Chapter Five argued was a cornerstone of Nehru's vision of a modern Indian state. However, as Chapter Seven showed, the reforms and the emergence of the BJP reflected wider developments in Indian politics that saw more explicit appeals to caste made by Congress under Indira Gandhi (Kohli, 1987; Frankel, 2004). Thus the BJP's communalist political strategy was hardly unprecedented.

The BJP distinguished itself in the economic realm by rejecting both the state-oriented Nehruvian scientific socialist as well as more recent market-oriented liberalization developmental models that the Congress had pursued, on the basis that both were based on foreign systems of thought that were inconsistent with Indian cultural traditions.

³² The rise of the BJP is associated with a series of major incidents and general upturn in communal violence between Hindus and Muslims. Incidents include the destruction of the Babri Masjid as well as the 2002 Gujarat pogrom where over 2,000 Muslims were killed. The violent dimensions of rising communalism are not unrelated to the economic liberalization process that this chapter describes. The two are part of the wider socio-political dynamics of contemporary India. This is an important point that should not be lost in this analysis of elite business politics.

Instead the BJP successfully resurrected the economic nationalist concept of *swadeshi* (self-reliance) and reintroduced it to the Indian political and popular discourse.³³ This appeal to a ‘true’ Indian indigenous thought had well-established roots going back to Gandhianism. Chapters Three and Five described the rise of *swadeshi* as a cultural symbol with powerful social meaning in the late colonial period and the central role it played as a symbol of Indian anti-colonialism and economic nationalism. However, the *swadeshi* idiom had been somewhat discredited by the perceived failures of autarchic post-independence state-led import substitution to make Indian industry ‘world class’. The shoddy manufactured goods that Indian firms produced under the license raj became symbols of the misguided tenets of *swadeshi* self-reliance.

Chapter Seven showed how the term completely fell out of the political vernacular with the 1980 return of Indira Gandhi and her ‘pro-business rhetorical and policy approach (Kohli, 2006a,b). However, the rise of the BJP demonstrated the enduring value of the *swadeshi* cultural symbol as a political resource. Crucially though, while the term retained salience, the content and social *meaning* of the *Swadeshi* cultural symbol was not immutable. As the theoretical framework established in Chapter Two argued, culture and cultural symbols are neither fixed, static, nor deterministic. *Swadeshi* was transposed and redefined from its late nineteenth anti-colonial meaning under drain theory, and early twentieth century manifestations in Gandhianism and Nehruvianism to suit the contemporary political purposes of the BJP. The reinterpretation and deployment of *Swadeshi* in the 1990s is an excellent depiction of how strategic actors can appropriate reformulate and utilize cultural symbols as political resources with subtle but powerful new content and social meaning by (Douglas, 1986; Swidler, 1986; Sewell, 1992; Wedeen, 2002). This not only highlights the importance of agency, it also challenges depictions of culture as static and deeply ingrained ‘values’ or cognitive orientations that characterize cultural approaches in the new institutional economics (Greif, 2005). The way this manifested in the causal ideas and social meanings of FDI policy is detailed further below.

³³ The resurrection of *Swadeshi* was accomplished with the support of the affiliated Swadeshi Jagaran Manch (Forum for *Swadeshi* Awakening or SJM)

This agency and creativity was apparent in the role of S. Gurumurthy, a key figure in BJP-affiliated Swadeshi Jagaran Manch (SJM). Gurumurthy held that both Nehruvian state planning of the 1950s and 1960s and consumerism of the 1980s and 1990s were impositions of a Westernized Indian elite. This elite referred to the Congress leadership in general, and the Nehru-Gandhi family in particular. It was epitomized by Rajiv Gandhi and the new breed of reformist technocrats who dominated New Delhi in the 1980s. The group of 'reformist' Congress elites retained control of the state apparatus under the Narasimha Rao administration of the 1990s. In an self-penned article entitled "Making India a Super Power: we need a rapid build up in national pride and self-confidence", Gurumurthy argued:

For a nation like India, politically **subjugated for centuries by alien conquest, and socially unsettled by invasions**, the idea of becoming a super power is no ordinary thought...When India attained freedom...India was swiftly marginalised in a [Cold War] world which respected only power. But, within India, the Indian leadership did the other way round - it persuaded the people not to pursue their **age-old values**, but, accept the **Anglo-Saxon ideas and institutions** in the main. It folded back the philosophic lead shown by Gandhi, Aurobindo and Tilak. **Their definition of the Indian identity was substituted by the western ideas of secularism and socialism.** Since then, for over four decades, the Left-Socialist parties and intellectuals mounted a vicious attack on the Indian past, and virtually **delinked the Indian polity, economy, history and education from its past and turned to Anglo-Saxon values.**³⁴

This was an bold and savvy move, as Gurumurthy sought to appropriate the Congress' biggest source of cultural power and legitimacy -- the bridge to the West that the cosmopolitan Jawaharlal Nehru and Rajiv Gandhi represented -- and use it against them.³⁵ This attempt to reorder the meaning of the Congress' elite western orientation and expertise was a powerful move of cultural agency. Gurumurthy linked this critique directly to the liberalization debate, accusing the Congress of merely switching from one Western system to another:

...with the collapse of the Soviet Union, the Indian establishment swung to the other extreme - from socialism to market capitalism. It was again in tune with its **lack of self-**

³⁴ S. Gurumurthy, "Making India a Super Power: we need a rapid build up in national pride and self-confidence." <http://www.tribuneindia.com/50yrs/final.htm>

³⁵ It is useful to note that even though the BJP-style Hindu nationalism has long been considered upper caste, the BJP sought to strategically increased its appeal to lower caste groups in the 1990s as a means of increasing its voter base. That said, much of this anti- Western elite had long been part of lower caste movements, as Kohli (1987) has shown. See Chapter Seven for further discussion of this point.

confidence - if it is not communism, it has to be capitalism. And we began to witness a massive effort to globalise - **which means westernise** [sic] - the Indian economy. The persons and parties who grossly maladministered the national economy suddenly turned 'reformers' and they paraded themselves as the new messiahs as if someone else was responsible for the wrongdoings in the past which needed to be reformed. Thus, Congressmen, that is those who needed to be reformed, styled themselves as 'the reformers'. Just as socialism was an ideology earlier, globalisation too became an ideology. **Now anyone who dissents against globalisation is being labelled as backward-looking and anti-modern.** Thus, just as we adopted socialism without a debate as to its viability in India and discarded it, we have adopted globalisation without any debate.³⁶

BJP Preferences towards FDI: "Computer Chips, not Potato Chips"

The BJP's discursive politics had major implications for the FDI debate. Gurumurthy and others in the BJP and SJM not only argued that the Congress' foreign social and economic models were unsuited to Indian cultural conditions, but crucially, that they hindered indigenous entrepreneurialism. In principle, BJP *swadeshi* economic nationalism was diametrically opposed to liberalization and globalization. *Swadeshi* still stood for the protection of domestic industry from foreign competition just as it had during the independence movement described in Chapter Five. However, the BJP imbued the *swadeshi* cultural symbol with new meaning arising from what the party claimed were indigenous Hindu cultural values. These values were predicated on a rejection of Western individualism and consumption patterns, a view which drew on the resonance of Gandhian asceticism.³⁷ This was a direct attack on the aspirational consumerist cultural

³⁶ Further, "Again, what India and Indians critically need is a measure of national pride and **self-confidence**. Without both, no nation can prosper. It is unfortunate that the English-educated Indians have repeatedly failed to generate personal or national self-confidence. Instead, they began to deprecate everything Indian. In the process, they deprecated each other, resulting in all-round self-deprecation. This trend has to be reversed. If we deprecate ourselves, as we have been habituated to, no one is going to respect India. The atomic test by India triggered our national pride in a big way, but we threw cold water on it. We have to build, and not waste, such achievements whether it is the Param Super Computer, or PSLV launch, the **Tata Car** or Kamini nuclear reactor working on thorium. A rapid build-up of national pride and **self-confidence** will yield a quantum jump in economic advancement. **Trade is a matter of psychology.**" (Ibid).

³⁷ The self-reliance and self-rule of Gandhian *swadeshi* and *swaraj* meant control of own body and (earthly, fleshly, material) desires, which he connected to independence. "On the basis of this analogy, the desires of Indian consumers were understood as one of the deep foundations of foreign domination. Therefore, sublimating these desires for the greater good of the nation became, for Gandhi, ever Indian's first duty. In his own words: 'How can Manchester be blamed? We wore Manchester cloth, and that is why Manchester wove it.' Citing Gandhi 1997:101". [REF] This austere elements of the Gandhian cultural schema supported consumerist repression of the purportedly developmentalist license Raj and facilitated its acceptance by the Indian public. However, the limit was eventually reached in the late 1970s, much as it did elsewhere in the developing world around the same time. This prompted Indira Gandhi's strategic promotion of what Chapter Seven terms 'aspirational consumerism'. Interestingly, Nehru had similar views towards asceticism, as he praised the strength of will and personal restraint he witnessed amongst the

schema that Chapter Seven argued underpinned the economic reforms. Instead, the BJP interpretation of *swadeshi* was reoriented and deployed to address the liberalization debate, with Hindu nationalist actors arguing that *swadeshi* represented full *internal* liberalization and a rejection of the license raj and its restrictions on Indian entrepreneurship, while promoting *selective* external liberalization to limit the areas where foreign collaborations would be allowed. This position was underpinned by the slogan: “Yes to Computer Chips, no to potato chips”. The rationale was that FDI would only be promoted if it included leading technologies. No more “palming off obsolete technologies” on JV partners as Tarun Das had argued. This period thus reflected the BJP’s construction of a competing set of causal ideas and social meanings to challenge the Congress Party. Thus the lines in the economic and political battle lines were drawn: domestic firms reacting against MNCs and the BJP’s Hindu nationalism posing a challenge to Congress Party dominance.

For political analysts and observers, these two developments did not seem unrelated. Not only did Das’ statements appear strategically timed as he made them in the run-up to the 1996 general elections, the purported connection between leading domestic industry and the growing *swadeshi* campaign was highlighted when CII President Rajiv Kaule invited the BJP’s most strident *swadeshi* campaigner, former party president Murli Manohar Joshi, to attend the CII’s annual general meeting. Joshi made a name for himself (along with the ultra conservative Shiv Sena) as a strident opponent of the massive Enron energy project in the Congress-controlled state of Maharashtra. Enron’s entry into India was extremely high profile, and the Clinton administration saw it as central to its Indian foreign economic policy. Joshi famously asserted that energy-starved India would rather use candles than Enron power. The Enron project ultimately collapsed amidst allegations of massive corruption, further fuelling the view of MNCs as unethical business actors (and Congress officials as corrupt). To the Indian public, the industry association appeared to either be using the upcoming elections to pressure the Congress to revise its joint venture policies or positioning itself in the event of a BJP victory.

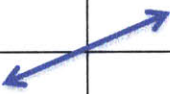
Russian people during his 1928 trip. This similarities and differences in Gandhian and Nehruvian politics is the subject of Chapter Five.

The ensuing public discourse served as something of a referendum on the reforms. Senior BJP official Yashwant Sinha stated that in the event of a BJP victory:

There'll certainly be a directional shift in reforms and the foreign direct investment (FDI) policy. We'll look at the list of areas open to FDI at present and make changes where necessary. All our policy shifts will come in the budget. Everything will be clearly defined. **This is nothing that India should be ashamed of. Many countries have similar restrictions.** But let's not scare the foreign investors more...**Swadeshi means competition with clearly defined rules.** The Japanese car industry was first developed at home. If we want our industry to compete with world-class products on Indian soil by lowering tariffs, we owe it to them to give them world-class infrastructure and interest rates and procedures that are comparable with the rest of the world. **We have chained their feet and told them to swim.**³⁸

BJP-promoted Categories of Capitalist Legitimacy (~1996-1998)

Illegitimate Indian economic actors <i>Traditional: 'traders' and 'speculators' who enter JVs as speculative investments</i>	Legitimate Indian economic actors <i>Entrepreneurs whose "feet have been chained" by stifling Congress regulation</i>
Illegitimate foreign economic actors <i>'Neo-imperial instruments'; unethical partners that withhold technologies and displace Indian firms</i>	Legitimate 'Western Economic Man' <i>Modern: ethical JV partners and technology providers</i>



The BJP's political rhetoric was directly linked to the cultural categories of capitalist legitimacy outlined in this chapter. It sought to legitimize domestic firms, and delegitimize MNCs. The language matched that of Indian capitalists in calling for 'clear rules', suggesting unfair behavior on the part of foreign firms. The BJP electoral campaign also successfully linked liberalization and flood of foreign goods with a critique of the aspirational consumerism amidst widespread poverty. In addition to the debates over the reforms, the Narasimha Rao led Congress was beset by scandals and ultimately lost the general elections to the Hindu Nationalist BJP-led coalition in 1996.

³⁸ Paromita Shastri 'Cola, Chips and Pop-Con.' <http://www.outlookindia.com/article.aspx?205245> Though at the same time Sinha and colleagues also stated the need to reduce bureaucratic hassles and red tape that impeded foreign investment "The foreign investor doesn't want to come in due to the hassle factor, for being shunted from ministries to departments. If you have a transparent regime of time-bound clearances, investments will come. But if you have a fast-track project that is not cleared in seven years, that's the worst publicity the country can get." (Ibid).

Though the coalition fell apart in 1997, the BJP regrouped in 1998 and remained in office until 2003.³⁹

VII. 'Leveling the Playing Field' through Press Note 18

The new BJP government followed through on a number of its belligerent campaign promises, the most dramatic of which was the nuclear tests codenamed 'Operation *Shakti* [power]' in May 1998. The symbolism of the test name is apparent, not least because of the contrast with the first Indian nuclear test conducted under Indira Gandhi in 1974 codenamed 'Smiling Buddha'. The test came at a severe cost as it shocked the world and led to sanctions by a number of countries including the United States, with whom India's diplomatic relationship rapidly deteriorated.

This was not the only area where India sought to flex its muscle. The political contestation around FDI liberalization led to the imposition of a set of policy controls on Indian joint ventures through an administrative order known as Press Note 18 in December 1998. Press Note 18 directly addressed Indian firms' complaints of 'MNC bullying' by requiring foreign joint venture partners to obtain a "non-objection certificate" from their Indian collaborators in order to exit the joint venture and launch new operations through wholly owned subsidiaries in the "same or allied field" as the existing partnership.⁴⁰

³⁹ This BJP shift vis-à-vis previous formulations can thus be summarized as follows. Up to this point, competing causal ideas and arguments about the legitimacy of economic actors had largely been structured by the dichotomies of foreign-domestic and traditional-modern. The BJP effectively advanced a vision of economic progress and modernity that was rooted in their own competing conception of Indian tradition, which challenged what they saw as conceptions of modernity that embedded in foreign/Western values.

⁴⁰ The language of the Note left room for significant business-government negotiation and bureaucratic discretion. Much of the issue requiring regulatory intervention arose because many contracts didn't include 'conflict of interest' clauses, and the notion of 'jeopardy' emerged as a key legal concept. Defining the "same field" and "allied" field(s) has been a source of frustration for firms and delight for corporate lawyers. In principle these were limited by PN 10 1999 to the four digit National Industrial Classification (NIC) code level for the 'same' field and the three digit NIC code for 'allied', but in practice the vagueness of the policy language has facilitated significant discretion by the government, even if may have also been exploited by domestic firms in a number of cases. However shifts in the breadth and scope of interpretation over the course of the reforms provides an indication of evolving FDI policy preferences.

- I. Automatic route for FDI and/or technology collaboration would not be available to those who have or had any previous joint venture or technology transfer/trade-mark agreement in the same or allied field in India. RBI, therefore, have to stipulate necessary declaration before applications for the automatic route are taken on record.
- II. Investors of Technology to the suppliers of the above category therefore will have to necessarily seek the FIPB/PAB approval route for joint ventures or the technology transfer agreements (including trade-mark) giving detailed circumstances in which they find it necessary to set-up a new joint venture/enter into new technology transfer (including trade-mark).
- III. The onus is clearly on such investors/technology suppliers to provide the requisite justification as also proof to the satisfaction of FIPB/PAB that the new proposal would not in any way jeopardize the interests of the existing joint venture or technology/trade-mark partner or other stakeholders. It will be at the sole discretion of FIPB/PAB to either approve the application with or without conditions or reject *in toto* duly recording the reasons for doing so.

This policy move dramatically shifted the balance of power towards Indian joint venture partners as it effectively trapped MNCs in their existing joint venture relationships and placed them at the whim of their local partners. Even more importantly from the standpoint of the theoretical argument being advanced in this dissertation, it would contribute to a crucial shift in the terms of the debate that reflected conflicting causal ideas and the malleability of the social meanings and symbols that competing actors deployed as they struggled for policy resources in the political domain.

Joint Venture Politics at the Firm Level: Hero-Honda and Kinetic-Honda

This subsection briefly outlines a link between the macro-institutional analysis that has been conducted thus far to firm-level politics.⁴¹ The Hero-Honda joint venture in the two-wheeler industry H-H exemplifies the rationale underpinning the creation of Press Note 18, and the company's fortunes has served as a dominant narrative that has been continuously deployed in the business media and interviewees when discussing the new regulatory regime. This major development in FDI and JV rules is closely associated with many partnerships with leading Indian firms and MNCs, but one of the most salient is a dispute within the Hero-Honda joint venture in the two-wheeler industry, where observers claim that Honda sought to exit the joint venture but Hero refused to grant

⁴¹ Future work will delve more deeply within the firm to truly link the macro-institutional analysis to the micro-level through consideration of sub-firm level dynamics in domestic-foreign joint ventures. It will address the way that macro-level institutions shape internal firm dynamics through comparative case analysis.

them the non-objection certificate.⁴² As Chapter Seven discussed, the Hero-Honda joint venture dates back to the initial round of economic reforms under Indira Gandhi in the early 1980s that saw the issuance of new industrial licenses and liberalization of foreign technology partnerships.

The Hero-Honda joint venture was widely seen as a success, as the firm grew rapidly from its launch in 1984 to dominate the newly created motorcycle segment that grew at an average of 20-25% in the 1990s. However, despite the joint venture's commercial achievements, Hero claimed that because Honda insisted on conducting all of its R&D in Japan, no product development capabilities were transferred to the joint venture. As a result, if the JV were to break up Hero would be unable to continue to produce motorcycles on its own and would potentially collapse. Hero in effect claimed that the Honda JV had failed to facilitate sufficient learning in the domestic partner. Honda was portrayed as behaving 'unfairly' by not holding up its end of the technology-for-markets bargain. The case thus epitomized the core "learning race" tensions within JVs around technological capabilities and competitiveness as well as the view of domestic firms as legitimate business actors seeking to upgrade for competitiveness and MNCs as rapacious and unethical business partners.

The dispute was interpreted through these contrasting representations of the two firms. The Munjal family-controlled Hero group has been identified by heterodox political economists as one of the best examples of the medium sized groups that emerged as beneficiaries of the new small and medium scale industrial clusters supported by the Green Revolution and related policies under Indira Gandhi discussed in Chapter Seven (Das Gupta, 2007:157). However, Hero and the Munjal family successfully promoted a vision of themselves as 'captains of industry' who rose through entrepreneurial endeavor to become the world's largest bicycle manufacturer *despite* the restrictions of the license-

⁴² A prominent view amongst industry insiders in the late 2000s was that government helped to broker a 10 year deal that kept the firms together. The validity of this rumor was strengthened by developments in the joint venture in 2007 and 2011, when it was ultimately terminated. Throughout the period the firm was under a microscope of media – and likely government – attention.

raj.⁴³ The Hero Group's own website describes the rise of the firm "After the partition in 1947, the Munjal family migrated to India [from present-day Pakistan] and started a small business of manufacturing bicycle components in Ludhiana, Punjab in North India *at a time there were great bottlenecks of industrial infrastructure and investments...* By the 1970's, Hero Cycles was the worlds largest bicycle manufacturing company."⁴⁴ Further, the firm was viewed as having done so well that one of the world's leading motorcycle manufacturers Honda chose Hero as a partner during the first wave of liberalization in the early 1980s.⁴⁵ According to *Money Outlook India* "Brijmohan Lall Munjal's entrepreneurial success is unparalleled. Relocating to India after the Partition, he started by manufacturing bicycle components; in barely a few years he'd established the Hero brand name. In 1984, he upgraded to motorcycles, launching India's first four-stroke bike in collaboration with Honda, and has never looked back."⁴⁶ This is a common view in the Indian business press, and Munjal himself describes Hero's rise in similar terms:

The move from bicycles to motorcycles was natural progression. Our extensive understanding of customers and the markets we'd acquired, coupled with in-house engineering expertise, facilitated the step-up. **The group had an abundance of in-house talent that needed to be channelised, which required a larger playing field.** We had a well-established supply chain and many of our vendors upgraded to cater to our motorcycle requirements. Honda was looking for an Indian partner, and we discovered that we had similar philosophies. At Hero Cycles, **we were already pursuing just-in-time inventory management techniques;** and we were assuming the responsibility of our dealers' profitability and growth, which was in line with Honda's principles. It was

⁴³ As an example of how capitalist firms depict themselves/agency in the cultural construction...The Hero Group's own website describes the rise of the firm "After the partition in 1947, the Munjal family migrated to India and started a small business of manufacturing bicycle components in Ludhiana, Punjab in North India **at a time there were great bottlenecks of industrial infrastructure and investments...** By the 1970's, Hero Cycles was the worlds largest bicycle manufacturing company." Further, Hero presents itself as a firm that seized the opportunity to partner with Honda so as to enter new areas of investment and production when the license regime was relaxed and the economy began to be opened to foreign investment in the early 1980s. [See <http://www.herocorp.com/history.html> emphasis added. Last accessed March, 5 2013.] These economic actors thus attempt to be agents of their own cultural construction, just as argued in Chapter Four (cf. Birla, 2009).

⁴⁴ See <http://www.herocorp.com/history.html> emphasis added. Last accessed March, 5 2013.

⁴⁵ Interestingly, Hero claims that Honda chosen them because they had already implemented key elements of Japanese lean manufacturing in their bicycle plants. This demonstrated Hero's 'modern' orientation as well as compatibility with Japanese manufacturing culture. An alternative view, however, suggests that Honda chose Hero over groups with deeper manufacturing experience in machinery precisely because it would ensure a long-term bargaining advantage such as the one it pressed home by retaining R&D in Japan.

⁴⁶ Himalee Bahl & Sonal Sachdev "We're Honda's golden goose. Interview with Brijmohan Lall Munjal, chairman Hero Group." <http://money.outlookindia.com/printarticle.aspx?87810>

this common philosophy that led Honda to partner us after having interacted with all the two-wheeler companies here.⁴⁷

Hero was seen as having successfully utilized the technology agreements and the joint venture to make the leap from bicycles to motorcycles by utilizing JVs to work with foreign firms to gain new technological capabilities – precisely the legitimate approach to foreign investment that the government sought to promote through its phased approach to liberalization. Further, Munjal presented Hero as an attractive partner to Honda because of its mastery of modern managerial and production techniques that widely seen as the key to Japanese manufacturing dominance in the 1980s. The fact that a conflict was brewing in an otherwise commercially successful joint venture played directly in to the view of MNCs as ‘bullies’ who sought to “dump” their local partners as soon as they could establish wholly-owned subsidiaries.

Honda’s experience with its other joint venture partner in the two-wheeler segment added credence to Hero’s claim. When Honda entered India in the early 1980s, in addition to Hero it also formed a joint venture with moped manufacturer Kinetic Motors to produce scooters.⁴⁸ Unlike Hero which had no experience with mechanized vehicles, Kinetic had significant experience in motorized two wheelers as it was already India’s largest producers of mopeds. The prospects for the Kinetic-Honda JV initially seemed bright as scooters were the principle mode of private transportation in the pre-liberalization period. Kinetic-Honda was bringing a technologically advanced product to a market that had long been dominated by Bajaj Auto’s heavily outdated Piaggio-licensed design. The firm initially did well, maintaining 44% of the scooter market and 15% of the total two-wheeler segment. However, with the liberalization of the two-wheeler segment and increased economic growth, consumer demand shifted towards the full sized motorcycles

⁴⁷ Ibid, Bahl & Sachdev.

⁴⁸ The Indira Gandhi administration segmented the industry by engine capacity and issued separate licenses to prospective Indian manufacturers, most of which were Indian-Japanese partnerships (see Chapter Seven). Interestingly, Munjal notes that he also considered entering the scooters segment, but opted not to based on his interpretation of the relative technological intensity of each product. “At one point, I was tempted by the Honda scooter (Kinetic Motors later launched this scooter as Kinetic Honda.) What decided it was the dearth of motorcycles in the Indian market in 1984, and the antiquated technology. Once the choice was made, I was all for the four-stroke technology—although many urged me to opt for the more popular two-stroke bikes. Other players, however, waited a while before venturing into four-strokes. Hero Honda owes its success to its timely decision to opt for a motorcycle and building it on a four-stroke technology platform.” (Ibid, Bahl & Sachdev)

that the TVS-Suzuki, Escorts-Yamaha, Bajaj-Kawasaki and Hero-Honda partnerships produced. This was an unanticipated development reflecting market uncertainty that created a wedge in the fortunes of these firms. While Hero-Honda quickly became the market leader along with TVS Suzuki, Kinetic-Honda fortunes went in the opposite direction with market share falling to 22% in mopeds and just 5% in the overall two-wheeler segment.

Indian Two-Wheeler Market (2001-7)

Manufacturer	Unit Sales (2001-2)	Unit Sales (2006-7)	Growth	Market Share	Change in share
Hero Honda Motors	1,371,325	3,339,896	144%	40%	7.4%
Bajaj Auto	1,198,120	2,379,512	99%	28%	0.1%
TVS Motor Company	872,572	1,513,764	73%	18%	-2.5%
Honda Motorcycle & Scooter India	55,669	713,889	1,182%	8%	7.2%
Yamaha Motor India Pvt.	238,569	294,407	23%	4%	-2.1%
Suzuki Motorcycle India Pvt.	0	67,164	--	1%	0.8%
Kinetic Engineering	152,938	16,949	-89%	0.2%	-3.4%
Kinetic Motor Company	106,479	52,760	-50%	0.6%	-1.9%
LML Limited	167,650	0	-100%	3.9%	-3.9%
Royal Enfield (Unit of Eicher)	24,136	32,261	34%	0.4%	-0.2%
Majestic	83,869	25,584	-69%	0.3%	-1.7%
Electrotherm India (electric scooter)	0	7,982	--	0.1%	0.1%

Source: Society of Indian Automobile Manufacturers (SIAM), 2008

In the early 1990s when Kinetic's market performance began to decline, the Firodia family agreed to allow Honda to expand its share of the joint venture to 51% in the hope that this would incentivize the Japanese giant to invest. At the beginning of the decade Kinetic's turnover of 1.21 billion rupees was on par with TVS Suzuki and Hero Honda at 1.4 and 1.5 billion rupees respectively. However, by 1999 TVS and Hero had grown several times over to 10.2 billion and 11.5 billion rupees respectively, while Kinetic's turnover had barely doubled. The Firodia's claimed that despite ceding majority share and control, Honda failed to invest sufficient resources into the firm, particularly through advertising and new product development, thus impeding the joint venture's growth. Unlike the Tata-Daimler case, the argument was that Honda *under*-invested in the Kinetic-Honda joint venture thus ensuring its weak performance and inevitable failure. Kinetic was in a difficult position: like Hero it was dependent on Honda for scooter technology and, despite the firm's ambitions, the JV agreement precluded Kinetic-Honda

from entering the rapidly growing and lucrative motorcycle segment as Honda already had a presence through the Hero partnership. Honda summoned Arun Firodia to Japan and gave him a stark option: sell his share to Honda, or buy Honda out.⁴⁹ Firodia, like many Indian business group patriarchs, was reluctant to lose the family firm and managed to raise the finance to buy Honda's share. Honda's exit surprised many industry observers given its position as the world's leading scooter manufacturer. Observers wondered why Honda was unable to replicate its motorcycle success in India. However, things became ominously clear a few months later in April 1999 when Honda announced that it was forming a wholly owned subsidiary to produce scooters. Crucially, the Kinetic-Honda partnership was terminated before PN18 was put into place, whereas PN18 was seen as significantly reshaping the distribution of power in the Hero-Honda joint venture. All this served to legitimize the plight of Indian domestic firms relative to their 'neo-imperialist' multinational joint venture partners. The chart below shows the categories of capitalist legitimacy, with the red arrow illustrating the direction of contestation between competing representations of legitimate and illegitimate domestic and foreign business actors.

Categories of Legitimacy in FDI Liberalization Debates (~1998)

	'Illegitimate'	'Legitimate'
Indian Economic Actors	'Backward' and 'traditional' Indian firms that are simply 'sleeping partners' in foreign-domestic joint ventures. These actors are simply 'traders' and 'speculators'. They are rapacious actors that hold MNCs to ransom.	'Forward looking' and 'modern' Indian firms that seek to acquire new capabilities through joint ventures. These are 'true' industrialists and 'captains of industry'. <i>Exemplar: Hero</i>
Foreign Economic Actors	Multinational firms employing 'cowboy tactics'; push local partners out of joint ventures; refuse to introduce cutting edge technology; only in India for 'one night stands'. <i>Exemplar: Honda</i>	Multinational firms that are willing to introduce new technologies and share them with Indian joint venture partners

⁴⁹ This story of a large Indian group being unceremoniously summoned to Japan by their powerful Japanese joint venture partner is similar to that faced by Bharat Ram of DCM in his light commercial vehicle (LCV) joint venture with Toyota (cf. Bharat Ram, 2011).

VIII. India Loses its 'Shine':

Declining Growth, FDI Contestation and the Rise of 'Self-Confident' India Inc.

By the end of the decade the euphoric mood that marked the beginning of the liberalization in 1991 began to wane, and a deep malaise took over the enthusiasm of the early reform years as FDI inflows and economic growth slowed.⁵⁰ As the head of the major US-India Business Council noted in an interview, 'the shine had come off of India'. There were both internal and external factors. The Asian Financial Crisis had a major depressive effect on the global economy, particularly on international capital flows and India also came under international sanctions from the nuclear test conducted by the chauvinistic BJP government. The mood was further dampened as many MNCs market size predictions didn't hold. In 1991 MNCs raced into India with fanfare to the allure of the 250 million 'middle class' that was expected to display both the consumer taste and purchasing power of their Western counterparts. This expectation failed to manifest. In addition, MNCs disappointment with the increasingly anti-FDI rhetoric of the mid-late 1990s that culminated in the imposition of Press Note 18 killed much of the appetite for new collaborations.⁵¹

Press Note 18 also began to be seen as problematic by domestic actors. As Chapter Two argued, the rationalized causal idea of FDI as a driver of economic growth through capital inflows had long existed in the institutional environment. This idea became increasingly dominant as worries about India's declining growth performance grew. PN18 quickly became a lightning rod and a focal point of debates on FDI, and FDI in turn became the bellwether of the wider process of economic reforms and economic

⁵⁰ See USIBC interview; Mazarella (2003:215-6; 264-5).

⁵¹ However, this causal assessment of MNC performance was somewhat offset by the growing idea that perhaps MNCs didn't understand Indian 'culture' and consumer taste, and that domestic firms retained an important asset in this area. To the extent that this rationale resonated with some MNC managers it rationalized the need for taking on a local partner, even though FDI caps had been lifted, and even in the face of the highly restrictive Press Note 18. Further, FDI caps were only one part of the complex Indian regulatory environment. Indian companies were still valuable assets for navigating the political and bureaucratic maze: local cultural understanding mattered. This view was rationalized by managerial theories such as the 'liability of foreignness' (Zaheer, 1996) as well as the growing institutional literature in international management (cf. Peng et al, 2008, 2009; Kostova et al, 2008). No longer was the idea that West is always right, now it was about how to 'learn locally'. This had implications for value of perception of value of JVs.

growth. The causal relationship between FDI inflows, economic growth and the reforms was not a fringe technocratic discussion that was restricted to members of the business and policy community; it was a central political issue that permeated mainstream political discussion, just as had been the case in the mid-late 1990s when the BJP was in its ascendancy.⁵²

The GOI initially attempted to play down the implications of PN18 as a disincentive to investment in the years immediately following its imposition, as seen in the 2002 Planning Commission Report in the section of FDI policy:

Subject to these foreign equity conditions a foreign company can set up a registered company in India and operate under the same laws, rules and regulations as any Indian owned company would. Unlike many countries including China, India extends National Treatment to foreign investors. There is absolutely no discrimination against foreign invested companies registered in India or in favour of domestic owned ones. **There is however a minor restriction on those foreign entities who entered a particular sub-sector through a joint venture with an Indian partner. If they (i.e. the parent) want to set up another company in the same sector it must get a no-objection certificate from the joint-venture partner. This condition is explicit and transparent unlike many hidden conditions imposed by some other recipients of FDI.**⁵³

This statement is also noteworthy given the references to China, as Indian policymakers and business actors had increasing angst about the higher levels of economic growth that its larger neighbor to the east was experiencing (even though a mere 1-2%), which was attributed to export growth in its FDI-fuelled manufacturing sector as Andrew, Jackson and Maddox (2013) have showed through quantitative analysis of news stories in the business press.

Despite the attempts of the GOI to play it down, PN 18 caused huge controversy upon its implementation. The policy conferred significant bargaining power to domestic JV partners, and critics - both Indian and foreign - pointed out that many Indian firms were using the threat of invoking PN18 to wrangle financial concessions.

⁵² This remained the case throughout the 2000s up to the present. In fact, in September 2012 the Congress Alliance teetered on the brink of collapse over the controversial and long-awaited liberalization of FDI (up to 51%) in retail sector. FDI politics were thus central to wider political contestation.

⁵³ GOI, Planning Commission 2002 Report.

Constructing Cultural Categories of Capitalist Legitimacy in the context of PN18

The key issue for policymakers in interpreting and adjudicating conflicts around FDI policy rules that evolved in the liberalization period was determining who were the legitimate parties, not only along the axis of domestic firms or multinationals, but crucially *amongst* domestic economic actors. In the context of the complexity and uncertainty surrounding the validity of claims and counter-claims by multiple sides over the course of the period, policymakers' preferences were not only shaped by the largely indeterminate rationalized causal ideas deployed by both sides, but by the social meanings with which competing causal ideas were imbued and the corresponding implications for the legitimacy of the economic actors deploying them. Once again, two categories of capitalist legitimacy were posited in the policy debate, which are aptly reflected in an interview conducted with a senior government official who provided his view on the distinction between Indian firms that truly wanted to partner with MNCs in order to gain new technologies, and those that were merely 'traders' and 'speculators':

It depends on the **orientation of the people in the company actually**. This is, I am talking lets say mostly about manufacturing companies, there is a depth, and there are certain things, you have to learn going from the less sophisticated to the more sophisticated. So **the ambition** to learn the most difficult ones, and then to go beyond and say maybe I can invent a few myself, **that orientation makes a difference. Between those who want to learn and those who are just trading**. Who say give me something I can produce it at low cost and sell it in the market and I'll make a lot of money. So **there is a trading orientation and there is a production orientation** among the local managers. **And this is an important distinction.**⁵⁴

My interviewee went further to locate the emergence of this illegitimate group of capitalists as an outcome of the pattern of India's economic reforms: and when asked to make sense of the backlash that emerged against MNCs, he went on to demonstrate, without prompting, how the categories of legitimacy I have outlined in this dissertation served as an interpretive cognitive and cultural framework that helped him make sense of the complex dynamics at work and ultimately shaped his preferences towards FDI policy:


[With the 1991 economic reforms] Much more opportunity was thrown open for Indian companies, Indians to start new things as previously it was controlled [by the industrial licensing regime]...Now the new people who could now come in, were not the old manufacturers. **These were traders**. [Who said to themselves:] 'Here's an opportunity, ok, someone's willing to invest, because India is opened up, **I'll also put a little share**

⁵⁴ Interview C29, April 2011, New Delhi.

along with it, I'll ride along for a while, its allowed.' They are not really interested in absorbing much technology. **They weren't technology types...They were the traders really.**⁵⁵

This distinction emerged repeatedly across interviews with senior policymakers as well as managers of leading Indian manufacturing sector firms. These categories and the cultural symbols and tropes that underpin them that emerged from this fieldwork are summarized in the table below and serve as the main area of analysis in Chapter Eight of the dissertation. The arrow illustrates the axis of contention between competing representations.

Categories of Capitalist Legitimacy in India (1998-2005)

Illegitimate Indian Economic Man <i>Traditional: 'Ragged Bazaar traders' trapped in ties of caste and kin; just 'along for the ride'</i>		Legitimate Indian economic actors <i>Modern: 'captains of industry'</i>
Illegitimate foreign economic actors <i>Traditional: 'neo-imperial instruments'</i>		Legitimate foreign economic actors <i>Modern: technology providers</i>

As in the 1990s, much of this debate was played out in the media, which as one of my interviewees, a senior bureaucrat in the Ministry of Finance suggested “is a legitimate realm for political contestation”.⁵⁶ The two sides of the debate were eloquently presented by Amit Mitra, Secretary-General of FICCI and Pallavi Shroff, Managing Partner of India's most prestigious law firm Armachand. In a self-penned article in April 2003, Mitra argued that:

Press Note 18, issued on December 14, 1998, corrected a serious policy anomaly that could have ruined the future of many small shareholders, weakened some major financial institutions and brought disaster to hundreds of Indian private promoters...The simple issue is, if a foreign direct investor or technology collaborator had formed a joint venture with **an Indian partner under whose leadership a great brand name was created**, shareholders garnered and financial institutional loans generated, can the multinational simply walk away and form a 100 per cent equity company of its own through the new policy of the 'automatic FDI route', **leaving the Indian company in the lurch?** Suppose **Honda were to walk away from Hero overnight and stop the supply of technology while creating its solely-owned Honda**, what would happen to the shareholders of the Hero Honda brand? What would happen to the loans from [domestic] financial institutions like IDBI, IFCI and ICICI? And what would happen to the promoters of Hero [The Munjal family] in the future? Similarly, imagine Suzuki walking away from TVS overnight because 100 per cent equity has been allowed in that sector. Many such success

⁵⁵ Ibid.

⁵⁶ Interview, April 2011, New Delhi.

stories of joint ventures would be ruined in a jiffy.⁵⁷

Mitra's statement strategically addressed the PN18 controversy. By identifying a broad base of constituents that benefited from PN18, he sought to legitimize the distributional implications of PN18 while reinforcing the view of MNCs taking advantage of Indian firms. PN18 was not just about protecting the Indian capitalists like the Munjal family, the effects of policy were presented as good for everyone. Rahul Bajaj similarly claimed that its not 'the Indian industrialist' who should be protected. As Dobbin (2004) and Roy (1997) have argued powerful capitalists present their own interests as in the being in the best interest of all in society. Mitra sought to justify PN 18 by citing the cases Hero-Honda and TVS Suzuki in the automobile industry as well as Pfizer in pharmaceuticals and ITC and BAT in tobacco. He argued that in these and 'hundreds of other cases' the government played the effective role of broker and arbiter between the parties and noted the difference in outcomes with Kinetic-Honda which was terminated by Honda before the imposition of PN18.

The FIPB would then play the role of an arbitrator and could require the foreign company to seek a 'no objection' certificate from the original Indian partner. In this context, if we look at the case of Hero Honda or TVS Suzuki, we find that they reached amicable settlements within an orderly transition process with a win-win option for both. In recent times, we saw the government play a very effective honest broker's role in the case of TVS Suzuki, with no rent-seeking or promoting any private angle. This was precisely the intent of Press Note 18 and it happened almost ideally. I recall the trauma of the parting of ways between Kinetic and Honda since there was no Press Note 18 at that time and Kinetic suffered on all of the above counts, understandably.

By contrast, Pallavi Shroff expressed strong opposition to the existence of PN18 by deploying a set of *legal* ideas:

Press Note 18 contradicts the Indian government's promise to create a 'foreign investment' friendly environment in India. To put it in a nutshell Press Note 18: (a) restricts the foreign investor's right to do business; (b) seeks to **legislate on matters that are within the contractual domain**; (c) creates an **unequal and disadvantageous position for foreign investors**; and (d) raises a plethora of legal and interpretational issues.⁵⁸

⁵⁷ Amit Mitra, Secretary-General, FICCI, 'Should Press Note 18 be Scrapped?' April, 2003.

<http://getahead.rediff.com/money/2003/apr/09debate.htm>

⁵⁸ 'Should Press Note 18 be Scrapped?' April, 2003.

<http://getahead.rediff.com/money/2003/apr/09debate.htm>

Shroff's arguments deploy the concept of 'contract' as a legitimating legal device that presumably levels the playing field between otherwise unequal bargaining partners. It directly counters the view that Mitra forwards of the state playing the role of arbiter. For Shroff, market-based institutional mechanisms of contract and courts can suffice. The argument thus spoke directly to the legitimacy of the Indian state intervention in contractual relations between private parties.

Mitra later responded to the legal ideas that Shroff deployed in an October 2004 article entitled "Retain Press Note 18" in the *Financial Express*.

The philosophy behind Press Note 18 is to safeguard the interests of shareholders, small and large, and the investments of financial institutions and promoters against any **predatory investments in India by the parent MNC in the same line of business**. In developed countries, commercial joint ventures (JVs) do have a conflict-of-interest clause that prevents any sudden reversal of long-term business contracts. In the absence of such a conflict-of-interest clause in most Indian JVs, **it is necessary that the application of Press Note 18 continues especially for agreements entered into prior to 1998**, so that existing JVs can be suitably amended and restrictive clauses in them are re-negotiated.⁵⁹

Having addressed the legal ideas, Mitra went on to catalogue the abuses that Indian firms were subject to in their joint venture relationships:

It would be pertinent here to list some **of the totally one-sided terms that MNCs have imposed on their Indian JVs**. These include restrictions on sourcing and pricing of components and exports; denial of separate brand identity for products manufactured by the Indian JV; denial of copyrights and patents; restrictions on sub-licensing of technologies to other Indian companies etc. It is, therefore, imperative that Press Note 18 continues to be in existence.⁶⁰

While Mitra's arguments sought to address the legitimate role of private law and state intervention, there was a second perhaps more crucial element of Shroff's argument. In addition to asserting the legitimacy of a private sphere of contractual relations, Shroff sought to invert the view of MNCs as unethical partners and domestic firms as victims, by arguing that the shift in the balance of power leads domestic firms to "mercilessly" abuse foreign partners by extracting high exit prices as a condition for providing the non-objection certificate.

⁵⁹ Amit Mitra, "Retain Press Note 18." *Financial Express*. Oct 7, 2004.

<http://www.financialexpress.com/news/retain-press-note-18/53522/>

⁶⁰ Amit Mitra, "Retain Press Note 18." *Financial Express*. Oct 7, 2004.

<http://www.financialexpress.com/news/retain-press-note-18/53522/>

Unfortunately, **the sweeping effect of Press Note 18** is that even where a venture has been terminated, a foreign investor with a new proposal to invest in the same or allied field with a new partner in India, would be disentitled for the automatic route and would have to approach FIPB/PAB for approval for the new venture. Foreign investors with existing ventures in India have to prove that a new proposal would not in any way jeopardise that venture's interests. From practice, it appears that the only way this can be proved is by way of a no-objection certificate from the Indian partner. Needless to mention this no-objection certificate has become **a weapon in the hands of the Indian partner**. **The Indian partner uses it mercilessly to extract greater exit value or challenge termination which is otherwise legally and contractually valid.** Press Note 18 clearly restricts a foreign investor's right to do business and denies it the equal footing and treatment that it ought to be assured by the government. The Indian partner, **despite contracting otherwise**, may refuse to give the foreign partner a 'no objection certificate', in which case, there is very little that the foreign partner can do, except maybe take recourse of the courts for specific performance.⁶¹

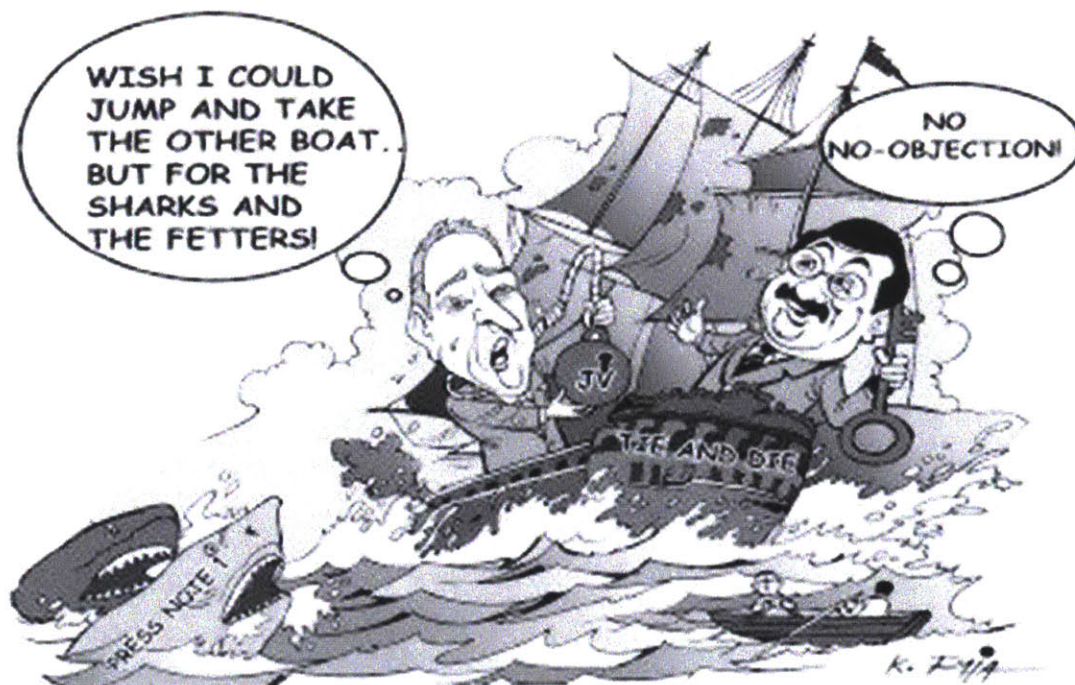
This statement strategically invokes the view of domestic Indian partners as rapacious and unethical business actors, a view that this dissertation has argued has deep historical roots in the late colonial and early post-independence periods. This delegitimizing view saw Indian business actors not as 'true' industrialists, but as rapacious business actors with the wrong 'orientation'. They had no real interest in developing manufacturing capabilities, they were just "along for the ride." As one of my interviewees, a former senior bureaucrat in the Ministry of Finance noted drily, "*they take a bribe*".⁶² This conception completely inverted the foreign-domestic firm relationship from earlier periods. The claim was given historical resonance by characterizations of the behavior of illegitimate Indian economic actors who eschewed efforts to acquire new technological and organizational capabilities from their foreign partners, but rather entered joint venture arrangements purely as a speculative financial investment to take advantage of regulations requiring JV formation. The argument was that these 'sleeping partners' were the reason that many MNCs opted to exit their JVs to 'go it alone'. This view of 'lazy' Indian capitalists with little interest in production hearkened back to cultural tropes that were ascribed to many rising Indian business groups in the late colonial and early independence period, and once again the charge was disproportionately leveled against Marwari-controlled business groups. Press Note 18 had become the single most contentious and charged issue in Indian FDI politics.

⁶¹ Pallavi Shroff, 'Should Press Note 18 be Scrapped?' April, 2003.

<http://getahead.rediff.com/money/2003/apr/09debate.htm>

⁶² Interview B4, New Delhi, April 2011.

As a result multinational firms claimed they were disempowered victims and began to lobby for a 'level playing field', reflecting the multiple meanings that competing actors seek to imbue in cultural symbols. The view is perfectly illustrated by the political cartoon below that shows the foreign manager being held to ransom by his Indian partner.⁶³



Mitra closed his arguments by addressing the potential for opportunistic behavior on the part of Indian firms by asserting a continued role for state intervention in JVs.

The FIPB has been taking a **liberal view** in allowing 100% wholly-owned companies in case of new applications by foreign companies where commercial relations with Indian corporate bodies have ceased to exist over a reasonable period of time. **Similar reasonable views** can be incorporated in the guiding blueprint for the application of Press Note 18. **This would establish a win-win situation for all stakeholders.**

⁶³ *The Hindu Business Line* "Press Note 1: An act beyond the contract", June 29, 2007.
<http://www.thehindubusinessline.com/2007/06/29/stories/2007062950210800.htm>

Press Note 18 is Dead: Long Live Press Note 1

These debates between domestic actors coupled with intense lobbying by European, Japanese and American firms and diplomats – reportedly even including German Chancellor Gerhard Schroeder⁶⁴ -- ultimately forced a reconsideration of Press Note 18. In October 2004, the powerful Committee of Secretaries, representing senior bureaucrats in each Ministry, considered three alternatives. First, that it adopts a hands-off approach and let joint ventures partners sort out quarrels on the basis of legally enforceable agreements; second, continues with a reformed Press Note 18; and third, freeing new ventures from the diktat of Press Note 18 while allowing older ventures to remain protected by it. Following the meeting, Finance Secretary D. C. Gupta suggested to the media that “We favour it being toned down. The proposal will now go before the cabinet.”⁶⁵... Ultimately, PN18 was replaced by PN1, which retained essentially the same provisions for JVs that predated January 1 2005 but held that new ventures would have to rely on contractual clauses. This served to protect Indian partners in existing joint ventures but excluded new joint ventures.

The replacement of Press Note 18 with Press Note 1 did not completely quell the controversy -- for example, reports of abusive MNC behavior continued, such as between the Korean LG and Indian HCCL but it did prompt a decisive shift in the debate. Over the course of the next few years the Foreign Investment Promotion Board increasingly ruled in favor of MNCs, and the view became that PN18/PN1 had outlived its time. Once again however, these changing preferences were outcomes of rationalized causal ideas that were imbued with salient social meaning. In addition to the negative case of rapacious and opportunistic Indian firms with the ‘wrong’ orientation, another powerful view that arose held that ‘true’ Indian industrialists had become so successful that they no longer needed government protection. This is the final dimension of the debate that this chapter will consider.

⁶⁴ “Press Note 18: Foreign Funding Rules to be Made Easy”

<http://teleradproviders.com/nbn/story.php?id=NzkzOA>== Last accessed March 14, 2013.

⁶⁵ “Press Note 18: Foreign Funding Rules to be Made Easy”

<http://teleradproviders.com/nbn/story.php?id=NzkzOA>== Last accessed March 14, 2013.

***From Swadeshi Self Reliance to Self Confidence:
'Indian Economic Man' is transformed to 'Davos Man'***

A new representation of Indian firms arose as the 2000s progressed. Rather than being seen as victims of abusive MNCs who needed government support to 'level the playing field', the discourse in Indian business and policy circles increasingly depicted Indian firms as 'mature' and 'self-confident'. A number of important factors can be identified in this changing view. First, economic growth recovered strongly from the early 2000s, peaking at 8% by the 2008 financial crisis. Second, rather than focusing on fending off MNCs at home, Indian business was increasingly investing abroad, becoming multinational firms in their own right. Outward FDI from India exploded from US\$677m in 2000 to US\$18.6b in 2008.⁶⁶ Further, Indian business groups made a number of high profile acquisitions headlined by the Tata Group's \$11.3b purchase of Corus Steel in 2007, which was the largest foreign acquisition by an Indian firm. Tata followed up with the \$2.3b purchase Jaguar Land Rover in 2008. Both of these followed Indian-owned but European-based Mittal Steel's massive \$35b acquisition of Arcelor Steel in 2006. These acquisitions resonated powerfully across India not only because of the size of the deals, but also because of the nature of the acquired firms: the steel and automobile industries stood at the pinnacle of global economic power, and Corus and JLR were powerful symbols of British industrial might that now belong to Indian firms. The former colony had turned the tables on its erstwhile imperial rulers.

This new self-confidence was not only evident in media depictions of Indian firms, it reflected a sentiment that had been growing since the late 1990s amongst Indian business elites. As a CEO of major Bombay ad agency noted in explaining the changing environment in India:

The other thing which I think has happened...is that **we really have grown independent of British thought now**. So we...suddenly **rediscovered...our confidence** and said, 'Oh, its *okay*.' You know, its *okay*. It's okay not to understand the difference between Strauss and Stravinsky. You know, its *okay*. If I like the kind of music that I have liked since childhood, its perfectly fine. **My identity is not under any kind of crisis...** So as a

⁶⁶ Data from the Reserve Bank of India "Outward Indian FDI: Recent Trends and Issues"
http://rbi.org.in/SCRIPTS/BS_SpeechesView.aspx?Id=674 Last accessed May 13, 2013.

culture, after that two hundred years of British rule, the culture is not very self-respecting. **Now we have begun to respect ourselves, saying ‘it’s okay’.**⁶⁷

This self-confidence was in full evidence in a 2005 interview with Venu Srinivasan, head of the powerhouse engineering business group TVS, when asked to comment the license-quota-permit raj and India’s traditional ‘fears of the foreign’.

I think coming to the quota raj, **the problem was that we didn’t believe in ourselves**, everything was attributed as the Government’s problem—that is the Government had to do something for us, not we for ourselves. I think post-quota raj what improved was that **we started doing things for ourselves**, we started improving our companies and we realised that we could compete.⁶⁸

Srinivasan went on to consider TVS’ joint venture with Suzuki that Mitra cited as part of the rationale for PN18 noted the conflict that emerged in the JV, but crucially in doing so he signaled the ambitions of TVS as a ‘captain of industry’.

We had a difficult situation [with the TVS-Suzuki joint venture]. Because **the aspirations of the partners were very different in the long run**. In the long run, they wanted to control the venture, make it a Suzuki company. And in the long run, **TVS wanted to make it a TVS company**, a TVS product.

And finally, when asked directly whether he should be considered one of the “first *swadeshi* pioneers after the reforms”, Srinivasan stated:

certainly, **we established the principle that an Indian company with aspirations could work a joint venture to its advantage by developing capabilities**, taking the fundamental basis that we got from Suzuki. Of course, we got into motorcycle manufacturing and **established ourselves** with the help of Suzuki, then started developing products on our own and **got our independence**. **So, it’s possible in joint ventures for a local partner to come out the winner**; in most joint ventures, the foreigners end up taking the local partner **because the local partner didn’t have the strategic aspirations...**⁶⁹

⁶⁷ Cited in Mazzarella (2003:144)

⁶⁸ “We showed that an Indian firm with aspirations could work a joint venture to its advantage”, *Financial Express* Jan 05, 2005. <http://www.indianexpress.com/oldStory/62076/> Last accessed May 21, 2013.

⁶⁹ Ibid. The interview concluded with comments directed at the Press Note 18 controversy. Srinivasan justified the rationale of the policy intervention, but noted that it was contingent of the ‘aspirations’ of the domestic firm: “Well Press Note 18 gives protection in the sense that say, a partner comes in and starts another venture and undermines the current venture. So, I think it was a very good thing in that sense, but beyond that unless we have the capability to design and make our product...” While this media interview was conducted in January 2005, in an interview with head of another large Indian automobile engineering firm noted that given his observations of the competitive challenges that TVS faced in the market even with its well-known R&D and engineering capabilities, he would never seek to enter the mass motorcycle space (Interview F2, Chennai, May 2011).

This final statement provides empirical backing for the argument made in this chapter that business actors not only seek to legitimize themselves, but also to delegitimize others. Srinivasan's comments not only sought to legitimize TVS by trumpeting its self-belief and 'long-run aspirations' relative to MNCs, but the statement simultaneously delegitimized other domestic firms by placing them in a binary category of firms with no ambition. This view was not only pervasive in the discursive politics of the period, as this chapter has showed, it also harkens back to the language that British colonial actors used when characterizing 'Indian Economic Man' as evincing "no economic ambition, only longing for nirvana" (Birla, 2009:2).

This view of 'self confidence' and the 'maturity' of 'India Inc.' absolutely permeated the business media through the late 2000s, and was expounded in detail by numerous interview respondents. Thus when Press Note 1 came under greater pressure it was seen by many as having past its time. The Department of Industrial Policy and Promotion issued a discussion paper in 2010 seeking feedback from the public on whether PN1 should be removed, a significant number of responses indicated that it should be scrapped based on the two causal ideas presented in this section: PN1 either protects illegitimate and rapacious domestic firms that have no interest in technological learning and in any case it is completely unnecessary for the 'true' capitalists industrialists that represent 'India Inc.'. These 'captains of industry' have 'matured'. They are no longer 'Indian economic man', as colonial actors portrayed them a century ago. Instead, as one of my interviewees triumphantly effused, 'global Indians' now represent India Inc.: "[Ratan] Tata is very self-confident. He is a globalizing Indian [and] today [Bombay Club spokesman Rahul] Bajaj is a leader of the global Indian economy...All are global Indians today." The metamorphosis is complete: 'Indian Economic Man' has become 'Davos man'.

IX. Conclusion

This was the final empirical chapter of the dissertation. It completed the empirical trajectory of the dissertation by analyzing political contestation over FDI rules during the course of the liberalization period (1991-2012). It argued that economic agents' policy preferences are socially constructed through processes of sociopolitical contestation. This process involves economic actors deploying competing causal ideas, meanings and representations as they seek to establish themselves as the legitimate actors through whom the state's development ambitions should be pursued. Socially embedded actors struggle to shape the institutional domain to their advantage by legitimizing themselves while simultaneously delegitimizing their adversaries in the institutional domain.

Indian economic actors legitimate themselves and delegitimize others by creating and deploying cognitive and cultural categories of 'traditional' and 'modern' business actors. These categories and schemas serve as interpretive frames through which actors determine the legitimate role of foreign and domestic firms in the project of national development. They play a powerful role in shaping actors preferences, particularly in the context of environmental complexity and uncertainty that characterize periods of institutional change and economic reform. The chapter demonstrated the theoretical and empirical scope of the analysis conducted in the wider dissertation in order to demonstrate how analytic attention to long run sociopolitical dynamics reveals continuous processes of socio-political contestation. The chapter and the wider dissertation have argued that in order to understand the sources of economic policy preferences and make sense of policy contestation we must understand the ways in which socially embedded agents continuously interact with their institutional environment by seek to establish their legitimacy and entrench dominant positions through continuous political contestation. The next chapter provides a brief summary and conclusion of the argument of the overall dissertation.

CHAPTER 9

Conclusions

The dissertation addressed a fundamental question in the social sciences: Where do economic interests and policy preferences come from? The dissertation interrogated the processes through which interests and preferences shape political and economic behavior, government policy, firm strategy and ultimately market outcomes. It addressed this question by analyzing political contestation over foreign direct investment (FDI) rules in India from the late colonial period through the present (1870-2012).

This dissertation employed extensive archival and field research to find that conventional theoretical approaches that naturalize economic interests and deduce economic actors preferences from their socio-economic structural position are inadequate to explain the dynamic shifts in government and firm preferences towards FDI over the course of India's modern economic history. It argued that attention must be paid to the ways in which actors make sense of the complexities of their institutional environment. The dissertation showed that preferences are social constructs that are shaped by cognitive and cultural schemas: rationalized causal logics imbued with historically salient social meaning. It argued that these schemas posit causal and historically meaningful relationships between the role of domestic and foreign firms and development outcomes and thus serve as interpretive frameworks through which business, state and societal actors make sense of the complexities of the economy. The dissertation thus makes two key contributions to the comparative political economy and economic sociology literatures. First, for the former, it highlights the role of culture and social meaning, which are often underplayed or ignored in comparative political economy and political science more broadly. Second, for the economic sociology literature, it showed that preference formation is not a passive process; agency and contestation are central in what is a highly creative and conflict-ridden process. The rest of this conclusion provides a brief recap of these arguments.

The dissertation showed how rationalized logics emerge from economic theories that posit causal relationships between FDI and development outcomes. However, it argued that there are competing theories and logics at play in both the scholarly and policy discourse that shape actors' beliefs about the economic effects of FDI. The dissertation identified two crucial causal ideas. The first holds that foreign capital not only contributes to industrial growth through investments in areas that advance industrial development, but also as well as indirectly through a variety of spillover effects that benefit domestic firms and the wider economy. However, a similarly compelling rationale suggests that foreign capital might constrain industrial development by crowding domestic actors out of oligopolistic markets through abuse of monopoly power. This dynamic would hinder the acquisition of new technological and organizational capabilities by domestic firms that would advance the wider development project. These competing theories remain unresolved in the policy and scholarly literature. However, this indeterminacy facilitates massive political contestation between economic and political actors wielding competing causal ideas as they battle to shape the policy and institutional environment in their favor.

Second, the dissertation argued that while the importance of causal logics and ideas in shaping actors preferences is increasingly recognized in literature from across rational choice, historical institutional and sociological strands of the new institutionalisms, there is a second *cultural* element of preferences that receives less analytic attention. This cultural dimension plays a complementary role to causal ideas by providing the socially meaningful and historically rooted cultural symbols, narratives and tropes that are essential for motivating human action. The identification of this cultural dimension and demonstration of the role it plays in preference formation, political contestation and policy and market outcomes is a major contribution this dissertation seeks to make.

These cultural devices provide salient representations of foreign and domestic firms that have deep historical resonance in Indian society. These representations see foreign firms either as 'traditional' economic actors that serve as neo-imperial instruments that prevent India from achieving widely-held industrialization ambitions or instruments of

development that introduce modern technologies and managerial practices to the domestic economy. Similarly, Indian firms are categorized as either economic actors orientated towards ‘traditional’ trading and moneylending activities that have long been considered as rapacious, abusive of the poor and constraining industrialization or as modern ‘captains of industry’ that heroically overcome the constraints imposed by the colonial state, import substitution and monopolistic multinational firms to boldly strike out into new areas of industrial production. The legitimacy of these actors in the eyes of state and society in turns determines the shape of the policy and institutional environment, that is, whether their activities should be supported or restricted by state policy. However, these categories of capitalist legitimacy are not given *a priori*, they are products of social and political contestation amongst business and state actors.

The cognitive and cultural categories of capitalist legitimacy are briefly outlined in the table below and expansively elaborated in the analysis over the course of the dissertation. Each of these categories is underpinned by a causal logic that rationalizes the practices of the given business actor, but the logics are imbued with historically salient social meanings that accord or deny legitimacy.

Cognitive and Cultural Categories of Capitalist Legitimacy in India (1870-2012)

Illegitimate Indian economic actors <i>Traditional: ‘bazaar traders and speculators’</i>	Legitimate Indian economic actors <i>Modern: ‘captains of industry’</i>
Illegitimate foreign economic actors <i>Traditional: ‘neo-imperial instruments’</i>	Legitimate foreign economic actors <i>Modern: ‘technology providers’</i>

Finally, the construction of cognitive and cultural categories is a crucial mechanism through which these socio-political processes occur. This is an important point to make in the political science literature that focuses on contestation but pays less attention to the social and cultural embeddedness of economic and political actors. However, categories like wider institutions don’t just constrain action; they also serve as enabling cultural resources for strategic action. This is a crucial contribution to the sociological literature that recognizes culture and social meaning but often plays down the role of agency. The dissertation showed that much of the political contestation observed in markets reflects economic actors competing to legitimize themselves and their activities, practices and

strategies in the eyes of the state and wider public as a means of gaining access to valuable resources. This not only means self-promotion, it is a competitive process that requires efforts to delegitimize others in the policy domain. This is a crucial element of agency and socio-political contestation. This approach allows us to make sense of what would otherwise seem to be idiosyncratic fluctuations in policy, which is all too often unhelpfully ascribed to battles between ‘competing interests’ and ‘the push and pull of politics’.



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18.9.63.16

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